



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

**Condensed Consolidated Financial Statements  
September 30, 2019**

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

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
	<b>CLP in billions</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	69.9	77.9
Trade receivables, net of allowances of CLP 20.3 billion and CLP 18.0 billion, respectively	71.8	69.4
Derivative instruments	13.7	14.4
Other current assets	19.1	22.1
<b>Total current assets</b>	<b>174.5</b>	<b>183.8</b>
Property and equipment, net	527.6	503.7
Goodwill	266.7	266.7
Long-term note receivable - related-party	81.1	74.9
Other assets, net	135.6	93.5
<b>Total assets</b>	<b>1,185.5</b>	<b>1,122.6</b>

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

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
<b>CLP in billions</b>		
<b>LIABILITIES AND OWNER'S DEFICIT</b>		
Current liabilities:		
Accounts payable	77.4	83.1
Deferred revenue	27.6	27.1
Current portion of debt and finance lease obligations	69.6	70.1
Accrued interest	18.6	30.0
Accrued programming	25.5	21.5
Other accrued and current liabilities	65.5	57.0
Total current liabilities	284.2	288.8
Long-term debt and finance lease obligations	1,077.5	1,032.6
Long-term tax liabilities	25.2	146.4
Other long-term liabilities	24.3	5.9
Total liabilities	1,411.2	1,473.7
Commitments and contingencies		
Owner's deficit:		
Accumulated net distributions	(357.3)	(357.4)
Accumulated earnings (deficit)	114.1	(12.9)
Accumulated other comprehensive earnings, net of taxes	17.5	19.2
Total owner's deficit	(225.7)	(351.1)
Total liabilities and owner's deficit	1,185.5	1,122.6

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

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

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>CLP in billions</b>				
Revenue	166.2	163.2	494.3	483.7
Operating costs and expenses (exclusive of depreciation, shown separately below):				
Programming and other direct costs of services	44.1	45.1	130.6	131.3
Other operating	24.5	23.6	73.3	71.5
Selling, general and administrative (SG&A)	30.7	28.8	93.7	87.5
Related-party fees and allocations	2.0	2.5	5.6	6.2
Depreciation	27.2	18.7	79.8	54.4
Impairment, restructuring and other operating items, net	1.2	1.4	8.4	4.6
	<u>129.7</u>	<u>120.1</u>	<u>391.4</u>	<u>355.5</u>
Operating income	36.5	43.1	102.9	128.2
Non-operating income (expense):				
Interest expense	(20.8)	(21.2)	(60.0)	(55.4)
Realized and unrealized gains (losses) on derivative instruments, net	59.6	(7.0)	21.0	15.7
Foreign currency transaction losses, net	(57.4)	(2.4)	(39.9)	(59.0)
Other income, net	2.4	1.8	7.1	2.9
	<u>(16.2)</u>	<u>(28.8)</u>	<u>(71.8)</u>	<u>(95.8)</u>
Earnings before income taxes	20.3	14.3	31.1	32.4
Income tax benefit (expense)	119.1	(14.6)	95.9	(31.0)
Net earnings (loss)	<u>139.4</u>	<u>(0.3)</u>	<u>127.0</u>	<u>1.4</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)**

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>CLP in billions</b>			
Net earnings (loss)	139.4	(0.3)	127.0	1.4
Other comprehensive earnings (loss), net of taxes:				
Unrealized gains on cash flow hedges	1.9	—	1.2	2.3
Reclassification adjustments included in net earnings (loss)	(0.5)	—	(2.9)	1.6
Other comprehensive earnings (loss)	1.4	—	(1.7)	3.9
Comprehensive earnings (loss)	140.8	(0.3)	125.3	5.3

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

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

	Accumulated net distributions	Accumulated earnings (deficit)	Accumulated other comprehensive earnings, net of taxes	Total owner's deficit
	CLP in billions			
Balance at July 1, 2018	(356.6)	(52.8)	18.8	(390.6)
Net loss	—	(0.3)	—	(0.3)
Share-based compensation	0.7	—	—	0.7
<b>Balance at September 30, 2018</b>	<b>(355.9)</b>	<b>(53.1)</b>	<b>18.8</b>	<b>(390.2)</b>
Balance at January 1, 2018	(361.2)	(54.5)	14.9	(400.8)
Net earnings	—	1.4	—	1.4
Other comprehensive earnings	—	—	3.9	3.9
Contribution of services	3.8	—	—	3.8
Share-based compensation	1.5	—	—	1.5
<b>Balance at September 30, 2018</b>	<b>(355.9)</b>	<b>(53.1)</b>	<b>18.8</b>	<b>(390.2)</b>
Balance at July 1, 2019	(357.3)	(25.3)	16.1	(366.5)
Net earnings	—	139.4	—	139.4
Other comprehensive earnings	—	—	1.4	1.4
<b>Balance at September 30, 2019</b>	<b>(357.3)</b>	<b>114.1</b>	<b>17.5</b>	<b>(225.7)</b>
Balance at January 1, 2019	(357.4)	(12.9)	19.2	(351.1)
Net earnings	—	127.0	—	127.0
Other comprehensive loss	—	—	(1.7)	(1.7)
Excess of the consideration received over the carrying value of property and equipment transferred to entities under common control	0.1	—	—	0.1
<b>Balance at September 30, 2019</b>	<b>(357.3)</b>	<b>114.1</b>	<b>17.5</b>	<b>(225.7)</b>

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

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

	<b>Nine months ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
	<b>CLP in billions</b>	
Cash flows from operating activities:		
Net earnings	127.0	1.4
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Non-cash share-based compensation expense	—	1.5
Depreciation	79.8	54.4
Amortization of deferred financing costs	2.3	1.8
Realized and unrealized gains on derivative instruments, net	(21.0)	(15.7)
Foreign currency transaction losses, net	39.9	59.0
Deferred income tax benefit	(0.2)	(11.9)
Changes in operating assets and liabilities	(134.9)	9.6
Net cash provided by operating activities	<u>92.9</u>	<u>100.1</u>
Cash flows from investing activities:		
Capital expenditures	(81.5)	(86.3)
Advances on related-party notes receivable	—	(172.2)
Other investing activities, net	0.8	0.8
Net cash used by investing activities	<u>(80.7)</u>	<u>(257.7)</u>
Cash flows from financing activities:		
Borrowings of third-party debt	40.8	218.8
Repayments of third-party debt and finance lease obligations	(62.1)	(59.3)
Payment of financing costs	(0.2)	(4.5)
Net cash received related to derivative instruments	—	7.4
Net cash provided (used) by financing activities	<u>(21.5)</u>	<u>162.4</u>
Effect of exchange rate changes on cash	<u>1.3</u>	<u>8.3</u>
Net increase (decrease) in cash and cash equivalents	<u>(8.0)</u>	<u>13.1</u>
Cash and cash equivalents:		
Beginning of period	77.9	55.0
End of period	<u>69.9</u>	<u>68.1</u>
Cash paid for interest	<u>68.9</u>	<u>65.0</u>
Net cash paid for taxes	<u>34.5</u>	<u>28.3</u>



**VTR FINANCE B.V.**  
**Notes to Condensed Consolidated Financial Statements**  
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**(unaudited)**

**(1) Basis of Presentation**

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.

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 2018 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 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 September 30, 2019.

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

These unaudited condensed consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through November 19, 2019, the date of issuance.

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

*Accounting Changes*

*ASU 2016-02*

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

For information regarding changes to our accounting policies following the adoption of ASU 2016-02, see note 3.

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**Notes to Condensed Consolidated Financial Statements – (Continued)**  
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The cumulative effect of the changes made to our condensed consolidated balance sheet as of January 1, 2019 is as follows:

	<b>Balance at December 31, 2018</b>	<b>Cumulative catch up adjustments upon adoption CLP in billions</b>	<b>Balance at January 1, 2019</b>
<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 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. ASU 2018-15 should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We expect to apply ASU 2018-15 prospectively and do not believe it will have a material impact on our consolidated financial statements and related disclosures.

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**Notes to Condensed Consolidated Financial Statements – (Continued)**  
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**(3) Summary of Changes in Significant Accounting Policies**

The following accounting policy reflects an update to the *Summary of Significant Accounting Policies* included in our 2018 annual report resulting from the adoption of ASU 2016-02. For additional information regarding the adoption of ASU 2016-02, see note 2.

*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 condensed 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 condensed consolidated balance sheet.

Our operating leases primarily consist of lease commitments for (i) retail stores, offices and facilities, (ii) other network assets and (iii) 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.

The following table provides details of our operating lease expense:

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2019</b>	<b>2018 (a)</b>	<b>2019</b>	<b>2018 (a)</b>
	<b>CLP in billions</b>			
Operating lease expense:				
Operating lease cost	1.5	1.9	4.7	5.5
Short-term lease cost	0.2	—	0.6	—
Total operating lease expense	1.7	1.9	5.3	5.5

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

The following table provides certain other details of our operating leases at September 30, 2019:

For the nine months ended September 30, 2019 (CLP in billions):	
Operating cash flows from operating leases	4.8
Right-of-use assets obtained in exchange for new operating lease liabilities (a)	1.6
Weighted-average remaining lease term (in years)	4.3 years
Weighted-average discount rate (b)	6.7%

- (a) Represents non-cash transactions associated with operating leases entered into during the nine months ended September 30, 2019.
- (b) We use a credit-adjusted discount rate to measure our operating lease liabilities. We derive the discount rates associated with each of our borrowing groups starting with a risk free rate, generally the United States (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 within each borrowing group, and make adjustments to correct for the collateralized interest rate spread by comparing unsecured debt to asset-backed securities (secured debt) trades, which is

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based on the spread between the BB- and B+ industrial curves. We determine the discount factor from this adjusted curve for each borrowing group.

***Maturities of Operating Leases***

Maturities of our operating lease liabilities on an undiscounted basis as of September 30, 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 September 30, 2019 exchange rates.

Years ending December 31:	
2019 (remainder of year)	1.6
2020	5.9
2021	4.8
2022	3.7
2023	2.8
2024	2.6
Thereafter	—
Total operating lease liabilities on an undiscounted basis	<u>21.4</u>
Amount representing interest	<u>(2.8)</u>
Present value of operating lease liabilities	<u>18.6</u>
Current portion	<u>5.1</u>
Noncurrent portion	<u>13.5</u>

The following table sets forth the CLP equivalents (in billions) of our operating lease commitments under ASC 840 as of December 31, 2018, which is required pursuant to ASU 2016-02 when using the effective date transition method.

Years ending December 31:	
2019	6.7
2020	5.6
2021	4.4
2022	3.5
2023	2.6
Thereafter	2.4
Total	<u>25.2</u>

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**(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 condensed consolidated statements of operations.

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

	September 30, 2019			December 31, 2018		
	Current (a)	Long-term (a)	Total	Current (a)	Long-term (a)	Total
CLP in billions						
<b>Assets:</b>						
Cross-currency derivative contracts (b)	6.6	52.9	59.5	4.6	32.1	36.7
Foreign currency forward contracts	7.1	—	7.1	9.8	—	9.8
Total	<u>13.7</u>	<u>52.9</u>	<u>66.6</u>	<u>14.4</u>	<u>32.1</u>	<u>46.5</u>
<b>Liabilities:</b>						
Interest rate derivative contracts (b)	3.0	7.5	10.5	1.3	0.6	1.9
Total	<u>3.0</u>	<u>7.5</u>	<u>10.5</u>	<u>1.3</u>	<u>0.6</u>	<u>1.9</u>

- (a) Our current derivative liabilities, long-term derivative assets and long-term derivative liabilities are included in other accrued and current liabilities, other assets, net, and other long-term liabilities, respectively, in our condensed consolidated balance sheets.
- (b) We consider credit risk relating to our and our counterparties' nonperformance in the fair value assessment of our derivative instruments. In all cases, the adjustments take into account offsetting liability or asset positions. The changes in the credit risk valuation adjustments associated with our cross-currency and interest rate derivative contracts resulted in net losses of CLP 1 billion and nil during the three months ended September 30, 2019 and 2018, respectively, and nil and CLP 11 billion, respectively, during the nine months ended September 30, 2019 and 2018. 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 5.

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
CLP in billions				
Cross-currency and interest rate derivative contracts	54.5	(7.3)	16.9	3.6
Foreign currency forward contracts	5.1	0.3	4.1	12.1
Total	<u>59.6</u>	<u>(7.0)</u>	<u>21.0</u>	<u>15.7</u>

At September 30, 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 condensed consolidated statement of operations within the next 12 months.

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

	<b>Nine months ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
	<b>CLP in billions</b>	
Operating activities	7.6	(2.6)
Investing activities	3.1	(1.8)
Financing activities	—	7.4
Total	10.7	3.0

***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 September 30, 2019, our exposure to counterparty credit risk included derivative assets with an aggregate fair value of CLP 67 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 September 30, 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 2.8 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 September 30, 2019, the notional amount of our interest rate swap contracts was CLP 141 billion and the related weighted average remaining contractual life was 3.4 years.

***Impact of Derivative Instruments on Borrowing Costs***

The weighted average impact of the derivative instruments on our borrowing costs at September 30, 2019 was a decrease of 9 basis points.

***Foreign Currency Forward Contracts***

We enter into foreign currency forward contracts with respect to non-functional currency exposure. At September 30, 2019, the total Chilean peso equivalent of the notional amounts of our foreign currency forward contracts was CLP 107 billion and the related weighted average remaining contractual life was 0.4 years.

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**(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 September 30, 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.

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.

***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 the nine months ended September 30, 2019.

**(6) Long-lived Assets**

***Property and Equipment, Net***

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

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
	<b>CLP in billions</b>	
Distribution systems	609.2	590.1
Customer premises equipment	626.1	604.4
Support equipment, buildings and land	284.6	267.4
	<u>1,519.9</u>	<u>1,461.9</u>
Accumulated depreciation	(992.3)	(958.2)
<b>Total</b>	<u><u>527.6</u></u>	<u><u>503.7</u></u>

We recorded non-cash increases of CLP 18 billion and CLP 20 billion to our property and equipment related to vendor financing arrangements during each of the nine months ended September 30, 2019 and 2018.

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

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

	September 30, 2019						
	Weighted average interest rate (a)	Unused borrowing capacity		Estimated fair value (b)		Principal amount	
		Borrowing currency	CLP equivalent	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
CLP in billions							
Parent – VTR Finance Senior Notes	6.88%	\$ —	—	946.8	877.9	917.8	874.4
<b>Subsidiaries:</b>							
VTR Credit Facilities	6.61%	(c)	179.8	172.3	170.5	174.0	174.0
Vendor financing (d)	4.89%	—	—	69.5	69.9	69.5	69.9
Total debt before deferred financing costs	<u>6.72%</u>		<u>179.8</u>	<u>1,188.6</u>	<u>1,118.3</u>	<u>1,161.3</u>	<u>1,118.3</u>

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

	September 30, 2019	December 31, 2018
CLP in billions		
Total debt before deferred financing costs	1,161.3	1,118.3
Deferred financing costs	(14.3)	(15.9)
Total carrying amount of debt	1,147.0	1,102.4
Finance lease obligations	0.1	0.3
Total debt and finance lease obligations	1,147.1	1,102.7
Less: Current maturities of debt and finance lease obligations	(69.6)	(70.1)
Long-term debt and finance lease obligations	<u>1,077.5</u>	<u>1,032.6</u>

- (a) Represents the weighted average interest rate in effect at September 30, 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. 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 September 30, 2019. For information regarding our derivative instruments, see note 4.
- (b) The estimated fair values of our debt instruments are determined using the average of applicable bid and ask prices (mostly Level 1 of the fair value hierarchy). For additional information concerning fair value hierarchies, see note 5.
- (c) Unused borrowing capacity represents the maximum availability at September 30, 2019 without regard to covenant compliance calculations or other conditions precedent to borrowing. At September 30, 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 135 billion) facility (together the **VTR Revolving Credit Facilities**). At September 30, 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 September 30, 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 41 billion and



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CLP 45 billion for the nine months ended September 30, 2019 and 2018, 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 condensed consolidated statements of cash flows. Repayments of vendor financing obligations are included in repayments of debt and finance lease obligations in our condensed consolidated statements of cash flows.

***Maturities of Debt***

Amounts presented below represent the CLP equivalents (in billions) based on September 30, 2019 exchange rates:

Years ending December 31:	
2019 (remainder of year)	16.8
2020	52.7
2021	—
2022	70.4
2023	103.6
2024	917.8
Thereafter	—
Total debt maturities	<u>1,161.3</u>
Deferred financing costs	(14.3)
Total debt	<u>1,147.0</u>
Current portion	<u>69.5</u>
Noncurrent portion	<u>1,077.5</u>

**(8) Income Taxes**

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

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

We recognized income tax benefit (expense) of CLP 119 billion and CLP (15 billion) for the three months ended September 30, 2019 and 2018, respectively, and CLP 96 billion and CLP (31 billion) for the nine months ended September 30, 2019 and 2018, respectively. This represents an effective income tax rate of (586.7)% and 102.1% for the three months ended September 30, 2019 and 2018, respectively, and (308.4)% and 95.7% for the nine months ended September 30, 2019 and 2018, respectively, including items treated discretely.

For the three months ended September 30, 2019, the income tax benefit attributable to our earnings before income taxes differs from the amount computed using the statutory tax rate, primarily due to the beneficial effects of net favorable changes in uncertain tax positions, permanent items such as non-taxable income (price level restatements) and international rate differences. These beneficial impacts to our effective tax rate were partially offset by the negative effects of increases in valuation allowances.

During the three months ended September 30, 2019, we closed certain tax assessments, and, as a result, reduced our uncertain tax positions by CLP 165 billion. Of this amount, CLP 132 billion has been reflected as a discrete tax benefit in our condensed consolidated statement of operations.

For the nine months ended September 30, 2019, the income tax benefit attributable to our earnings before income taxes differs from the amount computed using the statutory tax rate, primarily due to the beneficial effects of net favorable changes in uncertain

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tax positions and permanent items such as non-taxable income (price level restatements). These beneficial impacts to our effective tax rate were partially offset by the detrimental effects of international rate differences and increases in valuations allowances.

For the three and nine months ended September 30, 2018, the income tax expense attributable to our earnings before income taxes differs from the amounts computed using the statutory tax rates, primarily due to the detrimental effects of international rate differences, increases in valuation allowances, non-deductible expenses and changes in uncertain tax positions, partially offset by the beneficial effects of price level restatements.

Effective January 1, 2018, VTR Finance, along with its ultimate Dutch parent, Lila Chile Holding B.V., is part of a Dutch tax fiscal unity (the Dutch Fiscal Unity). The income taxes of VTR Finance’s subsidiaries, none of which are part of the Dutch Fiscal Unity, are presented in our condensed consolidated financial statements on a separate return basis for each tax-paying entity or group based on the local tax law.

The Dutch Fiscal Unity combines an individual Dutch tax paying entity, or entities, and their ultimate Dutch parent company as one taxpayer for Dutch tax purposes. Tax amounts allocated to VTR Finance are generally included in our condensed consolidated financial statements on a separate return basis. In this regard, any benefits that arise from tax losses generated by VTR Finance have not been recognized in our condensed consolidated financial statements, as we do not expect these benefits to be realized on a separate return basis.

**(9) Related-party Transactions**

*General.* We consider Liberty Latin America, Liberty Global plc (**Liberty Global**) and each of their subsidiaries to be related parties.

Our related-party transactions are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	CLP in billions			
Programming and other direct costs of services	0.1	0.1	0.3	0.2
Other operating	0.8	0.5	1.6	0.9
Allocated share-based compensation expense	0.9	0.7	2.8	1.5
Related-party fees and allocations:				
Operating and SG&A related (exclusive of depreciation and share-based compensation)	0.4	1.6	1.6	4.3
Depreciation	—	—	—	—
Share-based compensation	1.4	0.8	3.5	1.6
Management fee	0.2	0.1	0.5	0.3
Other	—	—	—	—
Total fees and allocations	2.0	2.5	5.6	6.2
Included in operating income	3.8	3.8	10.3	8.8
Interest income	(2.0)	(0.9)	(5.7)	(0.9)
Included in net earnings (loss)	1.8	2.9	4.6	7.9
Capital expenditures	1.2	1.5	3.9	3.7

*Programming and other direct costs of services.* The amounts represent cash settled charges for certain technology services provided to our company by Liberty Global.

*Other operating.* The amounts represent cash settled charges for certain technical and information technology services (including software development services associated with customer-facing platforms, management information systems, computer, data storage, and network and telecommunications services) provided by Liberty Global.

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*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 an increase to accumulated net distributions in our condensed consolidated statement of changes of owner's deficit. Beginning in the fourth quarter of 2018, this charge is cash settled and is included in related-party accrued liabilities in our condensed 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 condensed 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**).
- *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 relate to the LCRH Long-Term Note Receivable, as further described below.

*Capital expenditures.* The amounts relate to capital assets acquired from Liberty Global.

*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 condensed consolidated statement of owner's deficit.

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

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
<b>CLP in billions</b>		
<b>Assets:</b>		
Other current assets (a)	4.3	4.2
Long-term note receivable (b)	81.1	74.9
<b>Total assets</b>	<b>85.4</b>	<b>79.1</b>
<b>Liabilities:</b>		
Accounts payable (c)	0.2	1.7
Other accrued and current liabilities (d)	9.3	4.7
<b>Total liabilities</b>	<b>9.5</b>	<b>6.4</b>

- (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 each of September 30, 2019 and 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 LCRH paid down interest accrued during 2019 on the LCRH Long-Term Note Receivable.

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- (b) During the third quarter of 2018, we entered into a \$108 million (CLP 74 billion at the transaction date) long-term, interest bearing note receivable with Liberty Costa Rica Holdings LTD (LCRH) (the **LCRH Long-Term Note Receivable**).
- (c) Represents non-interest bearing payables predominantly to Liberty Latin America.
- (d) Represents non-interest bearing other accrued and current liabilities to (i) subsidiaries of Liberty Latin America, and (ii) Liberty Global.

**(10) Restructuring Liabilities**

A summary of changes in our restructuring liabilities during the nine months ended September 30, 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	4.6	3.2	7.8
Cash paid	(4.3)	(4.6)	(8.9)
Restructuring liability as of September 30, 2019	<u>1.4</u>	<u>10.6</u>	<u>12.0</u>
Current portion	1.4	7.5	8.9
Noncurrent portion	—	3.1	3.1
Total	<u>1.4</u>	<u>10.6</u>	<u>12.0</u>

The restructuring charges during the nine months ended September 30, 2019 are related to certain reorganization activities.

**(11) Commitments and Contingencies**

***Commitments***

In the normal course of business, we have entered into agreements that commit our company to make cash payments in future periods with respect to programming contracts, network and connectivity commitments, 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 September 30, 2019:

	<b>Payments due during:</b>							<b>Total</b>
	<b>Remainder of 2019</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	17.6	36.6	13.8	1.3	0.9	0.5	—	70.7
Network and connectivity commitments	7.9	18.8	16.2	—	—	—	—	42.9
Purchase commitments	1.7	7.1	8.1	0.7	0.4	—	—	18.0
Other commitments	0.5	0.8	0.4	0.2	0.1	0.7	—	2.7
Total (a)	<u>27.7</u>	<u>63.3</u>	<u>38.5</u>	<u>2.2</u>	<u>1.4</u>	<u>1.2</u>	<u>—</u>	<u>134.3</u>

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- (a) The commitments included in this table do not reflect any liabilities that are included in our September 30, 2019 condensed consolidated balance sheet.

Programming commitments consist of obligations associated with certain programming contracts that are enforceable and legally binding on us, as we have agreed to pay minimum fees without regard to (i) the actual number of subscribers to the programming services or (ii) whether we terminate service to a portion of our subscribers or dispose of a portion of our distribution systems. In addition, programming commitments do not include increases in future periods associated with contractual inflation or other price adjustments that are not fixed. Accordingly, the amounts reflected in the above table with respect to these contracts are significantly less than the amounts we expect to pay in these periods under these contracts. Historically, payments to programming vendors have represented a significant portion of our operating costs, and we expect that this will continue to be the case in future periods. In this regard, during the nine months ended September 30, 2019 and 2018, our total programming and copyright costs aggregated CLP 90 billion and CLP 88 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 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 the nine months ended September 30, 2019 and 2018, 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 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.

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**(12) Revenue by Product**

Our revenue by major category is set forth below.

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
CLP in billions				
Residential revenue:				
Residential fixed revenue:				
Subscription revenue (a):				
Video	61.2	62.3	183.0	184.3
Broadband internet	64.9	61.1	192.1	179.1
Fixed-line telephony	17.1	19.4	52.3	60.1
Total subscription revenue	<u>143.2</u>	<u>142.8</u>	<u>427.4</u>	<u>423.5</u>
Non-subscription revenue (b)	4.4	3.8	12.4	12.2
Total residential fixed revenue	<u>147.6</u>	<u>146.6</u>	<u>439.8</u>	<u>435.7</u>
Residential mobile revenue:				
Service revenue (a)	11.3	10.2	32.6	30.0
Interconnect, equipment sales and other (c)	1.9	2.1	6.5	6.3
Total residential mobile revenue	<u>13.2</u>	<u>12.3</u>	<u>39.1</u>	<u>36.3</u>
Total residential revenue	<u>160.8</u>	<u>158.9</u>	<u>478.9</u>	<u>472.0</u>
B2B service revenue (d)	5.4	4.3	15.4	11.7
Total	<u><u>166.2</u></u>	<u><u>163.2</u></u>	<u><u>494.3</u></u>	<u><u>483.7</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 2 billion during each of the three months ended September 30, 2019 and 2018, and CLP 4 billion during each of the nine months ended September 30, 2019 and 2018.
- (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 condensed consolidated financial statements and the discussion and analysis included in our 2018 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 and nine months ended September 30, 2019 and 2018.
- *Material Changes in Financial Condition.* This section provides an analysis of our liquidity, condensed consolidated statements of cash flows and contractual commitments.

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

Unless otherwise indicated, convenience translations into the Chilean peso are calculated as of September 30, 2019.

### 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, and finance strategies; subscriber growth and retention rates; competitive, regulatory and economic factors, including competition from other telecommunications operators; anticipated changes in our revenue, expenses, or growth rates; debt levels and interest expense; our liquidity; credit risks; internal control over financial reporting; foreign currency risks; interest rate risks; target leverage levels; compliance with debt covenants and our ability to obtain additional debt or refinance existing debt; our future projected contractual commitments, contingent liabilities, and cash flows; and other information and statements that are not historical fact. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. In evaluating these statements, you should consider the following list of some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

- economic and business conditions and industry trends in Chile;
- the competitive environment in the 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;

- our ability to maintain or increase the number of subscriptions to our video, broadband internet, fixed-line telephony and mobile service offerings and our average revenue per household;
- our ability to provide satisfactory customer service, including support for new and evolving products and services;
- our ability to maintain or increase rates to our subscribers or to pass through increased costs to our subscribers;
- the impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital;
- changes in, or failure or inability to comply with, government regulations in Chile and adverse outcomes from regulatory proceedings;
- government intervention that requires opening our broadband distribution networks to competitors;
- our ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions and dispositions and the impact of conditions imposed by competition and other regulatory authorities in connection with acquisitions;
- our ability to successfully acquire new businesses and, if acquired, to integrate, realize anticipated efficiencies from, and implement our business plan with respect to, the businesses we have acquired or that we may acquire;
- changes in laws or treaties relating to taxation, or the interpretation thereof, in Chile and the Netherlands;
- changes in laws and government regulations that may impact the availability and cost of capital and the derivative instruments that hedge certain of our financial risks;
- the ability of suppliers and vendors, including third-party channel providers and broadcasters (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 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;
- 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 applicable partners and joint venturers; and
- events that are outside of our control, such as political conditions and unrest in international markets, terrorist attacks, malicious human acts, hurricanes and natural disasters, pandemics and other similar events.

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



## Overview

### *General*

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

### *Internal Controls and Procedures*

As disclosed in our annual report for our fiscal year ended December 31, 2018, we identified material weaknesses in our internal control over financial reporting. The material weaknesses will not be considered remediated until the applicable new or enhanced controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. As remediation has not yet been completed, these material weaknesses continue to exist in our internal control over financial reporting as of September 30, 2019.

### *Management's Remediation Plans*

Management is continuing to implement the remediation plans as disclosed in our annual report for our fiscal year ended December 31, 2018. We believe that these actions and the improvements we expect to achieve, when fully implemented, will strengthen our internal control over financial reporting and remediate the material weaknesses identified.

### *Operations*

At September 30, 2019, we (i) owned and operated fixed networks that passed 3,664,000 homes and served 2,955,200 revenue generating units (RGUs), comprising 1,304,300 broadband internet subscribers, 1,098,300 video subscribers and 552,600 fixed-line telephony subscribers and (ii) served 289,400 mobile subscribers.

## Material Changes in Results of Operations

### *General*

As we use the term, "OCF" is defined as operating income or loss 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, (iii) other acquisition-related items, such as gains and losses on the settlement of contingent consideration and (iv) certain related-party insurance losses and recoveries.

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 our revenue, we are experiencing significant competition in our market. This competition has an adverse impact on our ability to increase or maintain our RGUs and/or average monthly subscription revenue per average fixed RGU (ARPU).

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

Our revenue by major category is set forth below:

	Three months ended September 30,		Increase (decrease)	
	2019	2018	CLP	%
CLP in billions				
Residential revenue:				
Residential fixed revenue:				
Subscription revenue:				
Video	61.2	62.3	(1.1)	(1.8)
Broadband internet	64.9	61.1	3.8	6.2
Fixed-line telephony	17.1	19.4	(2.3)	(11.9)
Total subscription revenue	143.2	142.8	0.4	0.3
Non-subscription revenue	4.4	3.8	0.6	15.8
Total residential fixed revenue	147.6	146.6	1.0	0.7
Residential mobile revenue:				
Service revenue	11.3	10.2	1.1	10.8
Interconnect, equipment sales and other	1.9	2.1	(0.2)	(9.5)
Total residential mobile revenue	13.2	12.3	0.9	7.3
Total residential revenue	160.8	158.9	1.9	1.2
B2B service revenue	5.4	4.3	1.1	25.6
Total	166.2	163.2	3.0	1.8

	Nine months ended September 30,		Increase (decrease)	
	2019	2018	CLP	%
CLP in billions				
Residential revenue:				
Residential fixed revenue:				
Subscription revenue:				
Video	183.0	184.3	(1.3)	(0.7)
Broadband internet	192.1	179.1	13.0	7.3
Fixed-line telephony	52.3	60.1	(7.8)	(13.0)
Total subscription revenue	427.4	423.5	3.9	0.9
Non-subscription revenue	12.4	12.2	0.2	1.6
Total residential fixed revenue	439.8	435.7	4.1	0.9
Residential mobile revenue:				
Service revenue	32.6	30.0	2.6	8.7
Interconnect, equipment sales and other	6.5	6.3	0.2	3.2
Total residential mobile revenue	39.1	36.3	2.8	7.7
Total residential revenue	478.9	472.0	6.9	1.5
B2B service revenue	15.4	11.7	3.7	31.6
Total	494.3	483.7	10.6	2.2

The details of the changes in our revenue during the three and nine months ended September 30, 2019, as compared to the corresponding periods in 2018, are set forth below (CLP in billions):

	Three-month period	Nine-month period
Increase in residential fixed subscription revenue due to change in:		
Average number of RGUs (a)	0.2	0.5
ARPU (b)	0.2	3.4
Increase in residential fixed non-subscription revenue	0.6	0.2
Total increase in residential fixed revenue	1.0	4.1
Increase in residential mobile service revenue (c)	1.1	2.6
Increase (decrease) in residential mobile interconnect, equipment sales and other	(0.2)	0.2
Increase in B2B service revenue (d)	1.1	3.7
Total	3.0	10.6

- (a) The increases are primarily attributable to the net effect of (i) higher broadband internet RGUs and (ii) lower fixed-line telephony RGUs.
- (b) The increases are due to the net effect of (i) higher ARPU from broadband internet services, (ii) an improvement in RGU mix and (iii) lower ARPU from fixed-line telephony and video services.
- (c) The increases are due to the net effect of (i) higher average numbers of mobile subscribers and (ii) lower ARPU from mobile services.
- (d) The increases are 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 enhanced video subscribers.

Our programming and other direct costs of services decreased CLP 1 billion or 2.2% and CLP 1 billion or 0.5% during the three and nine months ended September 30, 2019, respectively, as compared to the corresponding periods in 2018. These changes are primarily the result of the following factors:

- Decreases in interconnect and access costs of CLP 3 billion or 23.5% and CLP 5 billion and 14.3%, respectively, primarily as a result of decreases in (i) MVNO charges due to lower rates as we renegotiated our contract during the fourth quarter of 2018 and (ii) interconnect costs as a result of lower rates;
- Increases in programming and copyright costs of CLP1 billion or 2.7% and CLP 3 billion or 3.0%, respectively. The increase during the three-month comparison is primarily due to (i) a net increase in the foreign currency impact of programming contracts denominated in U.S. dollars, (ii) an increase in copyright costs and (iii) higher costs associated with video-on-demand (VoD) services and catch-up television. The increase during the nine-month comparison is primarily due to the net effect of (i) an increase in certain premium and basic content costs, primarily resulting from higher rates, (ii) higher costs associated with VoD services and catch-up television, and (iii) a net decrease in the foreign currency impact of programming contracts denominated in U.S. dollars; and
- Increases in mobile handset costs of CLP 1 billion or 19.8% or CLP 1 billion and 14.1%, respectively, 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 1 billion or 3.8% and CLP 2 billion or 2.5% during the three and nine months ended September 30, 2019, respectively, as compared to the corresponding periods in 2018. These changes include the following factors:

- Increases in outsourced labor and professional services of CLP 1 billion or 37.6% and CLP 3 billion or 29.6%, respectively, primarily due to increased call center volume;
- For the nine-month comparison, a decrease in network-related expenses of CLP 1 billion or 1.7%, primarily due to the net effect of (i) lower contracted labor for network access-related services, (ii) higher costs related to CPE materials and refurbishment activity, and (iii) lower rates and volumes for network services-related contracts; and
- For the nine-month comparison, an increase of CLP 1 billion driven by charges incurred during 2019 for certain technical and information technology services provided to us by Liberty Global under the Services Agreement, as further described in note 14 to our condensed consolidated financial statements.

### ***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 (exclusive of share-based compensation expense) increased CLP 1 billion or 4.9% and CLP 4 billion or 5.1% during the three and nine months ended September 30, 2019, respectively, as compared to the corresponding periods in 2018. These increases include the following factors:

- Increases in professional services of CLP 2 billion or 58.4% and CLP 4 billion or 42.5%, respectively, primarily due to (i) increased information technology costs associated with the implementation of a business support system and (ii) higher professional consultancy services; and
- For the nine-month comparison, an increase in sales, marketing and advertising expenses of CLP 1 billion or 3.9%, 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 2 billion and CLP 3 billion during the three months ended September 30, 2019 and 2018, respectively, and CLP 6 billion during each of the nine months ended September 30, 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 9 to our condensed consolidated financial statements.

### ***Depreciation expense***

Our depreciation expense increased CLP 9 billion or 45.5% and CLP 25 billion or 46.7% during three and nine months ended September 30, 2019, respectively, as compared to the corresponding periods in 2018. These increases are primarily due to the net effect of (i) increases in property and equipment additions, primarily associated with the installation of product and enabler-related additions, the expansion and upgrade of our networks and other capital initiatives, and the installation of CPE and (ii) decreases 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 1 billion during each of the three months ended September 30, 2019 and 2018, and CLP 8 billion and CLP 5 billion during the nine months ended September 30, 2019 and 2018, respectively. The amounts for all periods primarily relate to restructuring charges that we recorded in connection with employee severance and contract termination costs.

### *Interest expense—third-party*

Our third-party interest expense increased nil and CLP 5 billion during the three and nine months ended September 30, 2019, respectively, as compared to the corresponding periods in 2018. The increase during the nine months ended September 30, 2019 is primarily attributable to increases in average debt balances as we drew on the term loans associated with the VTR Credit Facilities in June of 2018.

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

It is possible that the interest rates on (i) any new borrowings could be higher than the current interest rates on our existing indebtedness and (ii) our variable-rate indebtedness could increase in future periods. As further discussed in note 4 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 September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	CLP in billions			
Cross-currency and interest rate derivative contracts (a)	54.5	(7.3)	16.9	3.6
Foreign currency forward contracts	5.1	0.3	4.1	12.1
Total	<u>59.6</u>	<u>(7.0)</u>	<u>21.0</u>	<u>15.7</u>

- (a) The gains during the three and nine months ended September 30, 2019 are primarily attributable to the net effect of (i) gains resulting from an 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 gains during the 2019 periods include net losses of CLP 1 billion and nil, respectively, resulting from changes in our credit risk valuation adjustments. The loss during the three months ended September 30, 2018 is primarily attributable to the net effect of (i) losses resulting from changes in interest rates and (ii) gains resulting from the decrease in value of the Chilean peso relative to the U.S. dollar. The gain during nine months ended September 30, 2018 is related 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 gains (losses) during the 2018 periods include net losses of nil and CLP 11 billion, respectively, resulting from changes in our credit risk valuation adjustments.

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

### *Foreign currency transaction losses, net*

We recognized foreign currency transaction losses, net, of CLP 57 billion and CLP 2 billion during the three months ended September 30, 2019 and 2018, respectively, and CLP 40 billion and CLP 59 billion during the nine months ended September 30, 2019 and 2018, respectively. These losses are primarily the result of 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 2 billion during each of the three months ended September 30, 2019 and 2018, and CLP 7 billion and CLP 3 billion during the nine months ended September 30, 2019 and 2018, respectively. The amounts for the three and nine months ended September 30, 2019 primarily include related-party interest and dividend income of CLP 2 billion and CLP 6 billion, respectively. The amounts for the three and nine months ended September 30, 2018 primarily include third-party interest and dividend income of CLP 1 billion and CLP 2 billion, respectively.

### *Income tax benefit (expense)*

Income tax benefit (expense) was approximately CLP 119 billion and (CLP 15 billion) for the three months ended September 30, 2019 and 2018, respectively, and CLP 96 billion and (CLP 31 billion), respectively, for the nine months ended September 30, 2019 and 2018, respectively. This represents an effective income tax rate of (586.7)% and 102.1% for the three months ended September 30, 2019 and 2018, respectively, and (308.4)% and 95.7% for the nine months ended September 30, 2019 and 2018, respectively, including items treated discretely.

For the three months ended September 30, 2019, the income tax benefit attributable to our earnings before income taxes differs from the amount computed using the statutory tax rate, primarily due to the beneficial effects of favorable changes in uncertain tax positions, permanent items such as non-taxable income (price level restatements) and international rate differences. These beneficial impacts to our effective tax rate were partially offset by the negative effects of increases in valuation allowances.

During the three months ended September 30, 2019, we closed certain tax assessments, and, as a result, reduced our uncertain tax positions by CLP 165 billion. Of this amount, CLP 132 billion has been reflected as a discrete tax benefit in our condensed consolidated statement of operations.

For the nine months ended September 30, 2019, the income tax benefit attributable to our earnings before income taxes differs from the amount computed using the statutory tax rate, primarily due to the beneficial effects of favorable changes in uncertain tax positions and permanent items such as non-taxable income (price level restatements). These beneficial impacts to our effective tax rate were partially offset by the detrimental effects of international rate differences and increases in valuations allowances.

For the three and nine months ended September 30, 2018, the income tax expense attributable to our earnings before income taxes differs from the amounts computed using the statutory tax rates, primarily due to the detrimental effects of international rate differences, increases in valuation allowances, non-deductible expenses and changes in uncertain tax positions, partially offset by the beneficial effects of price level restatements.

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

### *Net earnings (loss)*

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

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>CLP in billions</b>			
Operating income	36.5	43.1	102.9	128.2
Net non-operating expenses	(16.2)	(28.8)	(71.8)	(95.8)
Income tax benefit (expense)	119.1	(14.6)	95.9	(31.0)
Net earnings (loss)	139.4	(0.3)	127.0	1.4

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) impairment, restructuring and other operating items, (iv) interest expense, (v) other non-operating expenses and (vi) income tax expenses.

Subject to the limitations included in our various debt instruments, we expect 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.

## **Material Changes in Financial Condition**

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

#### *Cash and cash equivalents*

At September 30, 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 condensed consolidated financial statements. The liquidity of VTR.com SpA 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 cash flows, see the discussion under *Condensed Consolidated Statements of Cash Flows* below.

### ***Capitalization***

At September 30, 2019, the outstanding principal amount of our debt, together with our finance lease obligations, aggregated CLP 1,161 billion, including CLP 70 billion that is classified as current in our condensed consolidated balance sheet and CLP 1,092 billion that is not due until 2022 or thereafter. For the quarter ended September 30, 2019, our consolidated total net leverage ratio was 3.57x as specified in, and calculated in accordance with, the VTR Credit Facilities. For additional information concerning our debt and finance lease obligations, including our debt maturities, see note 7 to our condensed consolidated financial statements.

Our ability to service or refinance our debt and to maintain compliance with the leverage covenants in the credit 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 September 30, 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.

Notwithstanding our negative working capital position at September 30, 2019, we believe that we have sufficient resources to repay or refinance the current portion of our debt and finance lease obligations 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 and economic conditions, sovereign debt concerns or any adverse regulatory developments will impact the credit and equity markets we access and our future financial position. Our ability to access debt financing on favorable terms, or at all, could be adversely impacted by (i) the financial failure of any of our counterparties, which could (a) reduce amounts available under our committed credit facility and (b) adversely impact our ability to access cash deposited with any failed financial institution, and (ii) tightening of the credit markets. In addition, sustained or increased competition, particularly in combination with adverse economic or regulatory developments, could have an unfavorable impact on our cash flows and liquidity.

### ***Condensed Consolidated Statements of Cash Flows***

*Summary.* Our condensed consolidated statements of cash flows for the nine months ended September 30, 2019 and 2018 are summarized as follows:

	<b>Nine months ended September 30,</b>		<b>Change</b>
	<b>2019</b>	<b>2018</b>	
<b>CLP in billions</b>			
Net cash provided by operating activities	92.9	100.1	(7.2)
Net cash used by investing activities	(80.7)	(257.7)	177.0
Net cash provided (used) by financing activities	(21.5)	162.4	(183.9)
Effect of exchange rate changes on cash	1.3	8.3	(7.0)
Net increase (decrease) in cash and cash equivalents	<u>(8.0)</u>	<u>13.1</u>	<u>(21.1)</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 condensed consolidated statement of cash flows for the nine months ended September 30, 2019 includes a CLP 132 billion release of our uncertain tax position liability that has been reflected as a discrete tax benefit in our condensed consolidated statement of operations. For additional information see note 8 to our condensed consolidated financial statements.

*Investing Activities.* The decrease in net cash used by our investing activities is primarily attributable to (i) advances on related-party notes receivable to LCRH during the third quarter of 2018, as further described in note 7 to our condensed consolidated financial statements and (ii) lower capital expenditures, as further discussed below.

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

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

	<b>Nine months ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>CLP in billions</b>		
Property and equipment additions	104.6	103.3
Assets acquired under capital-related vendor financing arrangements	(17.5)	(19.6)
Changes in current liabilities related to capital expenditures	(5.6)	2.6
Capital expenditures	<u>81.5</u>	<u>86.3</u>



During the nine months ended September 30, 2019, a significant portion of our purchases of property and equipment was denominated in U.S. dollars. During the nine months ended September 30, 2019 and 2018, our consolidated property and equipment additions represented 21.2% of our revenue in each period.

*Financing Activities.* During the nine months ended September 30, 2019, we used CLP 22 billion in net cash from financing activities, primarily due to CLP 21 billion in net payments related to vendor financing. During the nine months ended September 30, 2018, we received CLP 162 billion in net cash from financing activities, which includes CLP 160 billion in net borrowings of debt.

### **Contractual Commitments**

The following table sets forth the Chilean peso equivalents of our commitments as of September 30, 2019:

	<b>Payments due during:</b>							<b>Total</b>
	<b>Remainder of 2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>Thereafter</b>	
<b>CLP in billions</b>								
Debt (excluding interest)	16.8	52.7	—	70.4	103.6	917.8	—	1,161.3
Finance leases (excluding interest)	0.1	—	—	—	—	—	—	0.1
Operating leases	1.6	5.9	4.8	3.7	2.8	2.6	—	21.4
Programming commitments	17.6	36.6	13.8	1.3	0.9	0.5	—	70.7
Network and connectivity commitments	7.9	18.8	16.2	—	—	—	—	42.9
Purchase commitments	1.7	7.1	8.1	0.7	0.4	—	—	18.0
Other commitments	0.5	0.8	0.4	0.2	0.1	0.7	—	2.7
Total (a)	<u>46.2</u>	<u>121.9</u>	<u>43.3</u>	<u>76.3</u>	<u>107.8</u>	<u>921.6</u>	<u>—</u>	<u>1,317.1</u>
Projected cash interest payments on debt (b)	<u>6.4</u>	<u>77.0</u>	<u>76.9</u>	<u>76.7</u>	<u>67.3</u>	<u>31.5</u>	<u>—</u>	<u>335.8</u>

- (a) The commitments included in this table do not reflect any liabilities that are included in our September 30, 2019 condensed consolidated balance sheet other than (i) debt and (ii) finance and operating lease obligations.
- (b) Amounts are based on interest rates, interest payment dates, commitment fees and contractual maturities in effect as of September 30, 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 and finance lease obligations, see note 7 to our condensed consolidated financial statements. For information concerning our operating lease obligations, see note 3 to our condensed consolidated financial statements. For information concerning our commitments, see note 11 to our condensed consolidated financial statements.

In addition to the commitments set forth in the table above, we have commitments under derivative instruments, pursuant to which we expect to make payments in future periods. For information regarding projected cash flows associated with these derivative instruments, see *Projected Cash Flows Associated with Derivative Instruments* below. For information regarding our derivative instruments, including the net cash paid or received in connection with these instruments during the nine months ended September 30, 2019 and 2018, see note 4 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 September 30, 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 condensed consolidated financial statements.

	<b>Payments (receipts) due during:</b>							<b>Total</b>
	<b>Remainder of 2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>Thereafter</b>	
<b>CLP in billions</b>								
<b>Projected derivative cash payments (receipts), net:</b>								
Interest-related (a)	0.9	(5.2)	(5.2)	0.5	5.4	2.3	—	(1.3)
Principal-related (b)	—	—	—	(43.6)	—	(20.1)	—	(63.7)
Other (c)	(2.6)	(4.9)	—	—	—	—	—	(7.5)
<b>Total</b>	<b>(1.7)</b>	<b>(10.1)</b>	<b>(5.2)</b>	<b>(43.1)</b>	<b>5.4</b>	<b>(17.8)</b>	<b>—</b>	<b>(72.5)</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.