

# **VTR FINANCE B.V.**

**Condensed Consolidated Financial Statements  
September 30, 2014**

**VTR Finance B.V.**  
12300 Liberty Boulevard  
Englewood, Colorado 80112

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

	<b>September 30, 2014</b>	<b>December 31, 2013</b>
	<b>CLP in billions</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents.....	35.7	86.9
Due from related party (note 9).....	76.9	315.9
Trade receivables, net.....	64.8	56.8
Other current assets (note 3).....	27.7	27.3
Total current assets.....	205.1	486.9
Property and equipment, net (note 5).....	331.2	316.3
Goodwill.....	267.1	267.1
Deferred income taxes.....	71.6	57.3
Derivative instruments (note 3).....	50.7	—
Other assets, net (note 9).....	60.4	35.2
Total assets.....	986.1	1,162.8

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

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

	<b>September 30, 2014</b>	<b>December 31, 2013</b>
	<b>CLP in billions</b>	
<b>LIABILITIES AND OWNERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Accounts payable .....	37.3	14.8
Derivative instruments (note 3).....	24.2	24.7
Deferred revenue .....	21.0	13.7
Accrued programming .....	15.4	11.6
Accrued capital expenditures .....	12.8	10.7
Accrued interest – third-party .....	12.2	0.7
Restructuring liability .....	6.3	13.3
Current portion of debt and capital lease obligations (note 6):		
Third-party .....	0.2	59.6
Related-party (note 9).....	—	2.5
Other accrued and current liabilities (note 9).....	68.5	66.7
Total current liabilities.....	197.9	218.3
Long-term debt and capital lease obligations (note 6):		
Third-party .....	837.9	0.3
Related-party (note 9) .....	—	288.1
Restructuring liability .....	20.9	24.3
Other long-term liabilities (note 9).....	2.8	7.8
Total liabilities .....	1,059.5	538.8
Commitments and contingencies (notes 3, 6, 7 and 10)		
Owners' equity (deficit) (note 8):		
Parent's equity (deficit):		
Accumulated net contributions (distributions) .....	(209.8)	423.3
Accumulated earnings .....	119.6	114.4
Accumulated other comprehensive earnings, net of taxes.....	16.8	21.3
Total parent's equity (deficit).....	(73.4)	559.0
Noncontrolling interests.....	—	65.0
Total owners' equity (deficit).....	(73.4)	624.0
Total liabilities and owners' equity (deficit).....	986.1	1,162.8

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	CLP in billions			
Revenue (note 11) .....	129.2	124.0	381.0	365.0
Operating costs and expenses:				
Operating (Opex) (other than depreciation and amortization) (including share-based compensation) (note 9) .....	57.8	60.3	170.9	176.1
Selling, general and administrative (SG&A) (including share- based compensation) .....	22.2	21.4	69.2	64.7
Related-party fees and allocations (note 9) .....	(0.4)	0.4	3.4	1.2
Depreciation and amortization .....	22.5	50.6	64.1	120.9
Impairment, restructuring and other operating items, net .....	1.2	43.4	2.5	43.2
	<u>103.3</u>	<u>176.1</u>	<u>310.1</u>	<u>406.1</u>
Operating income (loss) .....	<u>25.9</u>	<u>(52.1)</u>	<u>70.9</u>	<u>(41.1)</u>
Non-operating income (expense):				
Interest expense:				
Third-party .....	(15.4)	(1.7)	(40.7)	(4.4)
Related-party (note 9) .....	—	(2.8)	(0.3)	(8.0)
Interest income .....	0.4	0.3	1.5	1.0
Realized and unrealized gains (losses) on derivative instruments, net (note 3) .....	90.4	(4.2)	19.8	2.9
Foreign currency transaction gains (losses), net .....	(59.8)	5.0	(47.6)	(7.9)
Other expense, net .....	(0.1)	(0.3)	(1.6)	(1.2)
	<u>15.5</u>	<u>(3.7)</u>	<u>(68.9)</u>	<u>(17.6)</u>
Earnings (loss) before income taxes .....	41.4	(55.8)	2.0	(58.7)
Income tax benefit (expense) (note 7) .....	(3.3)	12.3	0.7	13.0
Net earnings (loss) .....	38.1	(43.5)	2.7	(45.7)
Net loss attributable to noncontrolling interests .....	—	10.6	2.5	11.7
Net earnings (loss) attributable to parent .....	<u>38.1</u>	<u>(32.9)</u>	<u>5.2</u>	<u>(34.0)</u>

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	CLP in billions			
Net earnings (loss) .....	38.1	(43.5)	2.7	(45.7)
Other comprehensive loss – foreign currency translation adjustments .....	—	(4.1)	(4.5)	(8.3)
Comprehensive earnings (loss) .....	38.1	(47.6)	(1.8)	(54.0)
Comprehensive loss attributable to noncontrolling interests .....	—	10.6	2.5	11.7
Comprehensive earnings (loss) attributable to parent .....	38.1	(37.0)	0.7	(42.3)

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

**VTR FINANCE B.V.**  
**CONDENSED CONSOLIDATED STATEMENT OF OWNERS' EQUITY (DEFICIT)**  
**(unaudited)**

	<u>Parent's equity (deficit)</u>			<u>Total parent's equity (deficit)</u>	<u>Noncontrolling interests</u>	<u>Total owners' equity (deficit)</u>
	<u>Accumulated net contributions (distributions)</u>	<u>Accumulated earnings</u>	<u>Accumulated other comprehensive earnings, net of taxes</u>			
	CLP in billions					
Balance at January 1, 2014 .....	423.3	114.4	21.3	559.0	65.0	624.0
Net earnings.....	—	5.2	—	5.2	(2.5)	2.7
Other comprehensive loss .....	—	—	(4.5)	(4.5)	—	(4.5)
Deemed distribution in connection with issuance of VTR Finance Senior Secured Notes (notes 6 and 8).....	(757.2)	—	—	(757.2)	—	(757.2)
Acquisition of noncontrolling ownership interests in VTR GlobalCom and VTR Wireless (note 8).....	(178.1)	—	—	(178.1)	(62.5)	(240.6)
Contribution from parent (notes 6 and 8).....	235.6	—	—	235.6	—	235.6
Settlement of UPC Chile Mobile Shareholder Loan and related interest (notes 6 and 8).....	64.6	—	—	64.6	—	64.6
Related-party fees and allocations (note 9).....	2.0	—	—	2.0	—	2.0
Balance at September 30, 2014 .....	<u>(209.8)</u>	<u>119.6</u>	<u>16.8</u>	<u>(73.4)</u>	<u>—</u>	<u>(73.4)</u>

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

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

	<b>Nine months ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>CLP in billions</b>	
Cash flows from operating activities:		
Net earnings (loss).....	2.7	(45.7)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Share-based compensation expense.....	2.4	1.0
Related-party fees and allocations.....	3.4	1.2
Depreciation and amortization.....	64.1	120.9
Impairment, restructuring and other operating items, net.....	2.5	43.2
Realized and unrealized gains on derivative instruments, net.....	(19.8)	(2.9)
Foreign currency transaction losses, net.....	47.6	7.9
Loss on debt extinguishment.....	1.1	—
Deferred income tax benefit.....	(15.4)	(25.0)
Changes in operating assets and liabilities.....	(5.2)	(19.2)
Net cash provided by operating activities.....	83.4	81.4
Cash flows from investing activities:		
Capital expenditures.....	(71.6)	(77.1)
Advances to related party.....	(31.2)	—
Other investing activities, net.....	0.1	(0.9)
Net cash used by investing activities.....	(102.7)	(78.0)

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



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

	<b>Nine months ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>CLP in billions</b>	
Cash flows from financing activities:		
Repayments received on advances to related parties .....	286.3	—
Purchase of Liberty Global shares in connection with the acquisition of noncontrolling ownership interests in VTR GlobalCom and VTR Wireless.....	(240.6)	—
Contributions from (distributions to) parent, net .....	235.6	(9.1)
Repurchase of related-party debt.....	(233.9)	(2.4)
Repayments of third-party debt and capital lease obligations.....	(60.4)	(0.2)
Borrowings of third-party debt.....	13.5	15.4
Net cash paid related to derivative instruments .....	(20.3)	—
Payment of financing costs .....	(15.9)	—
Other financing activities, net .....	2.4	(2.7)
Net cash provided (used) by financing activities.....	<u>(33.3)</u>	<u>1.0</u>
Effect of exchange rate changes on cash.....	<u>1.4</u>	<u>(0.1)</u>
Net increase (decrease) in cash and cash equivalents .....	(51.2)	4.3
Cash and cash equivalents:		
Beginning of period .....	<u>86.9</u>	<u>21.2</u>
End of period .....	<u>35.7</u>	<u>25.5</u>
Cash paid for interest .....	<u>30.9</u>	<u>8.1</u>
Net cash paid for taxes.....	<u>15.4</u>	<u>14.9</u>

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

**VTR FINANCE B.V.**  
**Notes to Condensed Consolidated Financial Statements**  
**September 30, 2014**  
**(unaudited)**

**(1) Basis of Presentation**

VTR Finance B.V. (VTR Finance) and its subsidiaries, including VTR GlobalCom SpA and its subsidiaries (collectively, VTR GlobalCom) and VTR Wireless SpA (VTR Wireless, and collectively with VTR Finance and VTR GlobalCom, “VTR”), provide broadband and wireless communications services in Chile. VTR Finance is a wholly-owned subsidiary of Liberty Global plc (Liberty Global). In these notes, the terms “we,” “our,” “our company” and “us” refer, as the context requires, to VTR Finance or collectively to VTR.

In January 2014, Liberty Global completed a reorganization of its credit pools. In connection with the reorganization, (i) VTR Finance and certain of its subsidiaries were extracted from the UPC Holding B.V. (UPC Holding) credit pool and, along with VTR Wireless, were placed in a separate credit pool (the VTR Extraction) and (ii) VTR Finance acquired the outstanding shares of UPC Chile Mobile Holding B.V. (UPC Chile Mobile Holding), the parent company of VTR Wireless, from Liberty Global Europe Holding B.V. (Liberty Global Europe), a subsidiary of Liberty Global, at nominal value, which was the deemed fair value of such shares. We have accounted for the VTR Extraction and the acquisition of UPC Chile Mobile Holding as common control transfers at carryover basis.

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 and reflect Liberty Global’s basis in our net assets. 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 our 2013 combined financial statements and notes thereto included in our 2013 annual report.

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

Our functional currency is the Chilean peso (CLP). Unless otherwise indicated convenience translations into the Chilean peso are calculated as of September 30, 2014.

These condensed consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through November 25, 2014, the date of issuance.

**(2) Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace existing revenue recognition guidance in U.S. GAAP when it becomes effective on January 1, 2017. Early application is not permitted. This new standard permits the use of either the retrospective or cumulative effect transition method. We are currently evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

**VTR FINANCE B.V.**  
**Notes to Condensed Consolidated Financial Statements – (Continued)**  
**September 30, 2014**  
**(unaudited)**

**(3) 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 arrangements that are not denominated in Chilean pesos. In this regard, we have entered into various derivative instruments to manage foreign currency exposure with respect to the Chilean peso and the United States (U.S.) dollar (\$). We do not apply hedge accounting to our derivative instruments. Accordingly, changes in the fair values of our derivative instruments are recorded in realized and unrealized gains or losses on derivative instruments, net, in our condensed consolidated statements of operations.

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

	<u>September 30, 2014</u>			<u>December 31, 2013</u>		
	<u>Current (a)</u>	<u>Long-term</u>	<u>Total</u>	<u>Current (a)</u>	<u>Long-term</u>	<u>Total</u>
	<b>CLP in billions</b>					
<b>Assets:</b>						
Cross-currency derivative contracts (b) (c) .....	—	50.7	50.7	—	—	—
Foreign currency forward contracts .....	0.9	—	0.9	0.4	—	0.4
Total .....	<u>0.9</u>	<u>50.7</u>	<u>51.6</u>	<u>0.4</u>	<u>—</u>	<u>0.4</u>
<b>Liabilities:</b>						
Cross-currency derivative contracts (b) (c) .....	24.2	—	24.2	24.7	—	24.7
Foreign currency forward contracts .....	—	—	—	—	—	—
Total .....	<u>24.2</u>	<u>—</u>	<u>24.2</u>	<u>24.7</u>	<u>—</u>	<u>24.7</u>

- (a) Our current derivative assets are included in other current assets in our condensed consolidated balance sheets.
- (b) We consider credit risk in our fair value assessments. As of September 30, 2014 and December 31, 2013, (i) the fair values of our cross-currency derivative contracts that represented assets have been reduced by credit risk valuation adjustments aggregating CLP 8.8 billion and nil, respectively, and (ii) the fair values of our cross-currency derivative contracts that represented liabilities have been reduced by credit risk valuation adjustments aggregating nil and CLP 0.1 billion, respectively. The adjustments to our derivative assets relate to the credit risk associated with counterparty nonperformance and the adjustments to our derivative liabilities relate to credit risk associated with our own nonperformance. In all cases, the adjustments take into account offsetting liability or asset positions within a given contract. Our determination of credit risk valuation adjustments generally is based on our and our counterparties' credit risks, as observed in the credit default swap market. The changes in the credit risk valuation adjustments associated with our cross-currency derivative contracts resulted in net losses of CLP 2.6 billion and nil during the three months ended September 30, 2014 and 2013, respectively, and CLP 8.9 billion and CLP 0.5 billion during the nine months ended September 30, 2014 and 2013, respectively. These amounts are included in realized and unrealized gains (losses) on derivative instruments, net, in our condensed consolidated statements of operations. For further information concerning our fair value measurements, see note 4.
- (c) In January 2014, we entered into new derivative instruments and settled our then existing derivative instruments in connection with the VTR Extraction and issuance of the VTR Senior Secured Notes, as defined and described in note 6.

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**Notes to Condensed Consolidated Financial Statements – (Continued)**  
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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,	
	2014	2013	2014	2013
	CLP in billions			
Cross-currency derivative contracts .....	89.3	(4.0)	18.2	2.6
Foreign currency forward contracts .....	1.1	(0.2)	1.6	0.3
Total .....	<u>90.4</u>	<u>(4.2)</u>	<u>19.8</u>	<u>2.9</u>

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

	Nine months ended September 30,	
	2014	2013
	CLP in billions	
Operating activities .....	(11.7)	(21.6)
Financing activities .....	(20.3)	—
Total .....	<u>(32.0)</u>	<u>(21.6)</u>

***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. We and our counterparties generally do not post collateral or other security, nor have we entered into master netting arrangements with any of our counterparties. At September 30, 2014, our exposure to counterparty credit risk included derivative assets with an aggregate fair value of CLP 27.4 billion.

***Details of our Derivative Instruments***

In the following tables, we present the details of the various categories of our derivative instruments. The notional amount of multiple derivative instruments that mature within the same calendar month are shown in the aggregate and interest rates are presented on a weighted average basis. In addition, for derivative instruments that were in effect as of September 30, 2014, we present a single date that represents the applicable final maturity date.

***Cross-currency Swap Contracts***

The terms of our outstanding cross-currency swap contracts at September 30, 2014, which are held by our subsidiary, VTR GlobalCom, are as follows:

Final maturity date	Notional amount due from counterparty	Notional amount due to counterparty	Interest rate due from counterparty	Interest rate due to counterparty
	in millions			
January 2022 .....	\$ 1,400.0	CLP 760,340.0	6.88%	10.94%

**VTR FINANCE B.V.**  
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***Foreign Currency Forwards***

The following table summarizes our outstanding foreign currency forward contracts at September 30, 2014:

<u>Subsidiary</u>	<u>Currency purchased forward</u>	<u>Currency sold forward</u>	<u>Maturity dates</u>
	in millions		
VTR GlobalCom .....	\$ 28.2	CLP 16,248.6	October 2014 – September 2015

**(4) Fair Value Measurements**

We use the fair value method to account for our derivative instruments. The reported fair values of these derivative instruments as of September 30, 2014 likely will not represent the value that will be paid or received upon the ultimate settlement of these derivative instruments, as we expect that the values realized generally will be based on market conditions at the time of settlement, which may occur at the maturity of the derivative instrument or at the time of the repayment or refinancing of the underlying debt instrument.

U.S. GAAP provides for a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. We record transfers of assets or liabilities in or out of Levels 1, 2 or 3 at the beginning of the quarter during which the transfer occurred. During the nine months ended September 30, 2014, no such transfers were made.

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

As further described in note 3, we have entered into various derivative instruments to manage our foreign currency exchange risk. The recurring fair value measurements of these derivative instruments are determined using discounted cash flow models. Most of the inputs to these discounted cash flow models consist of, or are derived from, observable Level 2 data for substantially the full term of these derivative instruments. This observable data includes applicable interest rate futures and swap rates, which are retrieved or derived from available market data. Although we may extrapolate or interpolate this data, we do not otherwise alter this data in performing our valuations. We incorporate a credit risk valuation adjustment in our fair value measurements to estimate the impact of both our own nonperformance risk and the nonperformance risk of our counterparties. Our and our counterparties' credit spreads are Level 3 inputs that are used to derive the credit risk valuation adjustments with respect to our foreign currency derivative valuations. As we would not expect changes in our or our counterparties' credit spreads to have a significant impact on the valuations of these derivative 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 swaps are quantified and further explained in note 3.

Fair value measurements are also used in connection with nonrecurring valuations performed in connection with impairment assessments and acquisition accounting. These nonrecurring valuations include the valuation of our company, property and equipment and the implied value of goodwill. The valuation of our company (our only reporting unit) is based at least in part on discounted cash flow analyses. With the exception of certain inputs for our weighted average cost of capital and discount rate calculations that are derived from pricing services, the inputs used in our discounted cash flow analyses, such as forecasts of future cash flows, are based on our assumptions. Tangible assets are typically valued using a replacement or reproduction cost approach, considering factors such as current prices of the same or similar equipment, the age of the equipment and economic obsolescence. The implied value of goodwill is determined by allocating the fair value of our company to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination, with the residual amount allocated to goodwill. All of

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our nonrecurring valuations use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy. We did not perform significant nonrecurring fair value measurements during the nine months ended September 30, 2014 or 2013.

**(5) 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, 2014</b>	<b>December 31, 2013</b>
	<b>CLP in billions</b>	
Distribution systems .....	448.8	418.9
Customer premises equipment .....	383.9	351.7
Support equipment, buildings and land .....	180.5	169.8
	1,013.2	940.4
Accumulated depreciation .....	(682.0)	(624.1)
Total property and equipment, net.....	331.2	316.3

During the second quarter of 2013, we began exploring strategic alternatives with respect to VTR Wireless' mobile operations, including alternatives that involved the use of expanded mobile virtual network operator (MVNO) arrangements. Effective April 1, 2013, we reduced the useful lives of VTR Wireless' network equipment to reflect our then expectation that we would enter into a new MVNO arrangement and cease commercial use of VTR Wireless' mobile network during the fourth quarter of 2013. In September 2013, (i) VTR Wireless completed the process of migrating its mobile traffic to a third-party wireless network pursuant to its existing roaming agreement and (ii) VTR Wireless ceased commercial use of its mobile network. As a result of the aforementioned reduction in useful lives, VTR Wireless recognized aggregate incremental depreciation expense of CLP 28.1 billion and CLP 48.9 billion during the three and nine months ended September 30, 2013.

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**(6) Debt and Capital Lease Obligations**

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

	September 30, 2014			Estimated fair value (b)		Carrying value		
	Weighted average interest rate (a)	Unused borrowing capacity		September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013	
		Borrowing currency	CLP equivalent					CLP in billions
Third-party debt:								
VTR Finance Senior Secured Notes .....	6.875%	\$	—	—	868.6	—	837.7	—
VTR Senior Credit Facility .....	—		(c)	117.7	—	—	—	—
VTR Wireless Bank Facility (d).....	—	CLP	—	—	—	59.4	—	59.4
Total third-party debt.....	<u>6.875%</u>			<u>117.7</u>	<u>868.6</u>	<u>59.4</u>	<u>837.7</u>	<u>59.4</u>
Related-party debt:								
UPC Broadband France Loan (e) ...	—	\$	—	—	—	(g)	—	232.1
UPC Chile Mobile Shareholder Loan (f) .....	—	\$	—	—	—	(g)	—	58.5
Total related-party debt.....	<u>—</u>			<u>—</u>			<u>—</u>	<u>290.6</u>
Total debt.....	<u>6.875%</u>			<u>117.7</u>			<u>837.7</u>	<u>350.0</u>
Capital lease obligations.....							<u>0.4</u>	<u>0.5</u>
Total debt and capital lease obligations.....							<u>838.1</u>	<u>350.5</u>
Current maturities.....							<u>(0.2)</u>	<u>(62.1)</u>
Long-term debt and capital lease obligations.....							<u>837.9</u>	<u>288.4</u>

- (a) Represents the weighted average interest rate in effect at September 30, 2014 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 our interest rate derivative instruments, deferred financing costs or commitment fees, all of which affect our overall cost of borrowing. Including the effects of derivative instruments and commitment fees, but excluding the impact of financing costs, our weighted average interest rate on our indebtedness was 11.1% at September 30, 2014. For information concerning our derivative instruments, see note 3.
- (b) The estimated fair values of our debt instruments are determined using the average of applicable bid and ask prices (mostly Level 1 of the fair value hierarchy) or, when quoted market prices are unavailable or not considered indicative of fair value, discounted cash flow models (mostly Level 2 of the fair value hierarchy). The discount rates used in the cash flow models are based on market interest rates and estimated credit spreads, to the extent available, and other relevant factors. For additional information concerning fair value hierarchies, see note 4.
- (c) Unused borrowing capacity represents the maximum availability at September 30, 2014 without regard to covenant compliance calculations or other conditions precedent to borrowing. At September 30, 2014, the unused borrowing capacity relates to the VTR Senior Credit Facility, which includes a \$160.0 million (CLP 95.7 billion) U.S. dollar facility (the VTR Dollar Senior Credit Facility) and a CLP 22.0 billion Chilean peso facility (the VTR CLP Senior Credit Facility), each of which were undrawn at September 30, 2014. The VTR Dollar Senior Credit Facility and the VTR CLP Senior Credit Facility have commitment fees on unused and uncanceled balances of 1.10% and 1.34% per year, respectively. At September 30, 2014, the full amount of unused borrowing capacity was available to be borrowed under the VTR Senior Credit Facility.

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**Notes to Condensed Consolidated Financial Statements – (Continued)**  
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When the September 30, 2014 compliance reporting requirements have been completed and assuming no changes from September 30, 2014 borrowing levels, we anticipate the full amount of unused borrowing capacity of the VTR Senior Credit Facility will continue to be available to be borrowed.

- (d) In January 2014, all outstanding amounts under VTR Wireless' Chilean peso denominated CLP 60.0 billion term loan bank facility (the VTR Wireless Bank Facility) were repaid and the VTR Wireless Bank Facility was cancelled. In connection with this transaction, we recognized a loss on debt modification and extinguishment, net, of CLP 1.1 billion related to the write-off of deferred financing costs. This loss is included in other expense, net, in our condensed consolidated statement of operations.
- (e) On January 10, 2014, VTR Finance received a capital contribution of \$444.9 million (CLP 235.6 billion at the applicable rate) from our parent, which was used to acquire the corresponding loan receivable under a fully drawn term loan to VTR GlobalCom (the UPC Broadband France Loan) from UPC Broadband France SAS (UPC Broadband France). UPC Broadband France is a wholly-owned subsidiary of Liberty Global Europe. Accordingly, the UPC Broadband France Loan was effectively settled within VTR.
- (f) On January 10, 2014, the aggregate principal and accrued interest of \$121.9 million (CLP 64.6 billion at the applicable rate) owed under a loan from Liberty Global Europe to UPC Chile Mobile Holding (the UPC Chile Mobile Shareholder Loan) was settled through a non-cash capital contribution by Liberty Global Europe to UPC Chile Mobile Holding. For further information, see note 8.
- (g) The fair values of the UPC Broadband France Loan and UPC Chile Mobile Shareholder Loan were not subject to reasonable estimation due to the related-party nature of these loans.

On January 24, 2014, VTR Finance issued \$1.4 billion (CLP 837.7 billion) principal amount of 6.875% senior secured notes due January 15, 2024 (the VTR Senior Secured Notes) in connection with the VTR Extraction. The net proceeds from the issuance of the VTR Senior Secured Notes were used, together with existing cash of certain Liberty Global subsidiaries, to repay certain of the outstanding indebtedness of the UPC Holding credit pool in connection with the VTR Extraction. The use of proceeds from the VTR Senior Secured Notes to repay debt of UPC Holding has been reflected as a non-cash transaction in our condensed consolidated financial statements.

***Maturities of Debt***

As of September 30, 2014, all of our outstanding debt matures in January 2024.

**(7) Income Taxes**

VTR Finance and UPC Chile Mobile Holding are part of a Dutch tax fiscal unity (the Dutch Fiscal Unity), along with their ultimate Dutch parent and certain other Dutch subsidiaries of Liberty Global. The Dutch Fiscal Unity combines individual tax paying Dutch entities and their ultimate Dutch parent company as one taxpayer for Dutch tax purposes. Tax amounts allocated to VTR Finance and UPC Chile Mobile Holding are 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 and UPC Chile Mobile Holding 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. Intercompany tax allocations from the Dutch Fiscal Unity are not subject to tax sharing agreements and no cash payments are made between the companies related to the Dutch tax attributes. Accordingly, any intercompany tax allocations are reflected as an adjustment of accumulated net contributions (distributions) in our condensed consolidated statements of owners' equity. As VTR Finance and UPC Chile Mobile Holding generated tax losses during the nine months ended September 30, 2014, no intercompany tax allocations are reflected for this period in our condensed consolidated financial statements. During the nine months ended September 30, 2013, we recognized intercompany tax allocations of CLP 0.4 billion related to taxable income generated by VTR Finance and UPC Chile Mobile Holding. The income taxes for our entities that are not a 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.



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

	<u>Three months ended</u> <u>September 30,</u>		<u>Nine months ended</u> <u>September 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
	CLP in billions			
Computed “expected” tax benefit (expense).....	(10.4)	14.0	(0.5)	14.7
Enacted tax law changes (a).....	12.4	—	12.4	—
Change in valuation allowance .....	(7.7)	—	(7.7)	—
Nonrecognition of intercompany tax expense (benefit).....	0.5	0.4	(2.7)	—
International rate difference (b) .....	2.8	(2.9)	0.4	(3.0)
Impact of price level adjustments for tax purposes.....	(0.2)	1.3	—	1.6
Other, net.....	(0.7)	(0.5)	(1.2)	(0.3)
Total income tax benefit (expense).....	<u>(3.3)</u>	<u>12.3</u>	<u>0.7</u>	<u>13.0</u>

- (a) Represents the estimated impact on our net deferred tax assets of the current and future tax rate changes that are promulgated in the new Chilean tax law, as further described below.
- (b) Amounts reflect the impact of a lower statutory tax rate in Chile, as compared to the Netherlands.

***Chilean Tax Law Changes***

On September 26, 2014, the Chilean President signed an extensive tax reform bill, including changes to the corporate tax rate, changes to the thin capitalization rules, taxation of certain Chilean investments abroad and changes to the stamp tax rate, among other relevant changes. The bill became law upon its publication in the Official Gazette (*Diario Oficial*) on September 29, 2014. The impacts of the tax law changes that are currently in effect are reflected in our condensed consolidated financial statements.

According to this new law, the current corporate tax rate of 20% will be increased progressively as follows: 2014 (21%), 2015 (22.5%) and 2016 (24%). Beginning in 2017, there will be two optional income tax regimes: the “attributed system” and the “partially integrated system.” Under the “attributed system,” the corporate tax rate will be 25% and the 35% withholding tax will be paid on an accrual basis by the corporation on behalf of the shareholder, with the corporate tax fully creditable against the withholding tax. Under the “partially integrated system,” the corporate tax rate will be 25.5% in 2017 and 27% in 2018 and future years, and the 35% withholding tax will be paid only upon actual distributions to shareholders. However, under this partially integrated system, only 65% of the corporate tax paid by a Chilean company can be used as a credit against the withholding tax imposed on non-Chilean resident shareholders, which implies a final tax burden of 44.45%. In the case of shareholders resident in countries that have tax treaties in force with Chile, there will be a full credit for the corporate tax paid, which implies a final tax burden of 35% for such shareholders. Corporations must elect the relevant tax regime before December 31, 2016. This election, once made, is irrevocable for a period of five years.

**(8) Owners’ Equity (Deficit)**

***Acquisition of Ownership Interests in VTR GlobalCom and VTR Wireless***

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

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***Distributions***

On January 24, 2014, the \$1.4 billion (CLP 757.2 billion at the applicable rate) proceeds from the issuance of the VTR Senior Secured Notes were used to repay debt of UPC Holding in connection with the VTR Extraction. We have accounted for this non-cash transaction as a deemed distribution in our condensed consolidated statement of owners' equity (deficit).

***Contributions***

On January 10, 2014, VTR Finance received a cash contribution of \$444.9 million (CLP 235.6 billion at the applicable rate) from our parent, which was used to acquire the loan receivable under the UPC Broadband France Loan from UPC Broadband France. For additional information, see note 6.

On January 10, 2014, the UPC Chile Mobile Shareholder Loan was settled through the issuance of shares by UPC Chile Mobile Holding. The issued and outstanding shares of UPC Chile Mobile Holding were subsequently acquired by VTR Finance in connection with the VTR Extraction. As a result, we recorded the then carrying value of the UPC Chile Mobile Shareholder Loan of \$121.9 million (CLP 64.6 billion at the applicable rate) as an increase to parent's equity.

**(9) Related-party Transactions**

Our related-party transactions are as follows:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>CLP in billions</b>			
Operating expenses .....	0.4	0.5	1.2	1.6
Fees and allocations .....	(0.4)	0.4	3.4	1.2
Included in operating income (loss) .....	—	0.9	4.6	2.8
Interest expense .....	—	2.8	0.3	8.0
Included in net earnings (loss) .....	—	3.7	4.9	10.8

*General.* UPC Holding and another subsidiary of Liberty Global charge fees and allocate costs and expenses to our company. Depending on the nature of these related-party transactions, the amount of the charges or allocations may be based on (i) our estimated share of the underlying costs, (ii) our estimated share of the underlying costs plus a mark-up or (iii) commercially-negotiated rates. Through June 30, 2014, our related-party OpEx expenses and our related-party fees and allocations generally were based on our company's estimated share of the applicable estimated costs (including personnel-related and other costs associated with the services provided) incurred by the applicable Liberty Global subsidiaries. The amounts charged were based on estimated costs that were reviewed and revised on an annual basis, with any differences between the revised and estimated amounts recorded in the period identified, generally the first quarter of the following year. The revisions to reflect actual costs for our related-party OpEx expenses for 2013 were not material. During the third quarter of 2014, Liberty Global and its subsidiaries began basing the fees charged and amounts allocated among Liberty Global and its subsidiaries on actual costs incurred. As a result, during the third quarter of 2014, we recorded a €3.2 million (CLP 2.4 billion) reduction to the fees and allocations charged to our company to reflect the impact of this change in methodology for the full nine-month period ended September 30, 2014. The impact of this change in methodology on our related-party OpEx expenses was not material. Although we believe that the related-party charges and allocations described below are reasonable, no assurance can be given that the related-party costs and expenses reflected in our condensed consolidated statements of operations are reflective of the costs that we would incur on a standalone basis.

*Operating expenses.* Amounts consist of cash settled charges for programming services provided to our company by our affiliates and another Liberty Global subsidiary.

*Fees and allocations.* These amounts include (i) charges that originate with UPC Holding, which became effective January 1, 2014 in connection with the VTR Extraction, and (ii) charges that originate with another Liberty Global subsidiary. The net charges (credits) from UPC Holding aggregated (CLP 1.1 billion) and CLP 1.4 billion during the three and nine months ended September 30, 2014, respectively, and the net charges from another Liberty Global subsidiary aggregated CLP 0.7 billion and CLP

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0.4 billion during the three months ended September 30, 2014 and 2013, respectively, and CLP 2.0 billion and CLP 1.2 billion during the nine months ended September 30, 2014 and 2013, respectively. These amounts include charges for management, finance, legal, technology, marketing and other services that support our company's broadband communications and mobile operations. Charges that originate with UPC Holding are expected to be cash settled periodically and are currently reflected as other current liabilities in our condensed consolidated balance sheet. Charges that originate with the other Liberty Global subsidiary will not be cash or loan settled and are therefore reflected as decreases to parent's deficit.

*Interest expense.* These amounts primarily represent interest on the UPC Broadband France Loan and the UPC Chile Mobile Shareholder Loan, which were settled or effectively settled on January 10, 2014. For additional information, see note 6.

*Intercompany tax allocations.* During periods in which we generate taxable earnings, we may receive intercompany tax allocations from entities within the Dutch Fiscal Unity. For additional information, see note 7.

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

	<b>September 30, 2014</b>	<b>December 31, 2013</b>
	<b>CLP in billions</b>	
<b>Assets:</b>		
Due from related party (a) .....	76.9	315.9
Other assets, net (b) .....	6.3	—
Total assets.....	<u>83.2</u>	<u>315.9</u>
<b>Liabilities:</b>		
Other accrued and current liabilities (c) .....	3.6	2.2
Debt (d).....	—	290.6
Other long-term liabilities (e) .....	—	5.6
Total liabilities .....	<u>3.6</u>	<u>298.4</u>

- (a) Represents an advance to another subsidiary of Liberty Global, payable on demand. During the three months ended March 31, 2014, a significant portion of this advance was repaid and the resulting cash was primarily used in connection with our acquisition of the NCI Owner's 20.0% ownership interests in each of VTR GlobalCom and VTR Wireless. For additional information regarding the acquisition of the NCI Owner's ownership interests, see note 8.
- (b) This amount primarily represents a \$9.9 million (CLP 5.9 billion) loan receivable (the Lila Chile Note Receivable) under an agreement between VTR Finance and Lila Chile Holding B.V. (Lila Chile Holding), another subsidiary of Liberty Global. The Lila Chile Note Receivable bears interest at 5.90% per annum and has a repayment date of July 11, 2022. Accrued and unpaid interest on the Lila Chile Note Receivable may, as agreed between VTR Finance and Lila Chile Holding, (i) be payable on the last day of each month and on the date of each full or partial repayment of the outstanding principal, (ii) be added to the outstanding principal amount on January 1 of each year or (iii) be payable in any other manner as communicated by us and agreed by Lila Chile Holding. The net increase in the Lila Chile Note Receivable during 2014 primarily includes (a) cash loaned of \$56.0 million (CLP 31.1 billion) and (b) cash repayments received of \$46.1 million (CLP 25.7 billion).
- (c) Represents non-interest bearing payables to certain Liberty Global subsidiaries and, with respect to the December 31, 2013 balance, aggregate interest accrued of CLP 1.5 billion on the UPC Broadband France Loan. For additional information regarding the effective settlement of the UPC Broadband France Loan, see note 6.
- (d) Represents amounts outstanding under the UPC Broadband France Loan and the UPC Chile Mobile Shareholder Loan at December 31, 2013. These loans were settled or effectively settled on January 10, 2014. For additional information, see note 6.
- (e) Represents accrued interest on the UPC Chile Mobile Shareholder Loan at December 31, 2013 that was capitalized to the principal balance on January 1, 2014. The UPC Chile Mobile Shareholder Loan was settled on January 10, 2014. For additional information regarding the UPC Chile Mobile Shareholder Loan settlement, see note 6.

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**(10) Commitments and Contingencies**

***Commitments***

In the normal course of business, we have entered into agreements that commit our company to make cash payments in future periods with respect to programming contracts, network and connectivity commitments, non-cancelable operating leases, purchases of customer premises and other equipment and other items. The Chilean peso equivalents of such commitments as of September 30, 2014 are presented below:

	<b>Payments due during:</b>							<b>Total</b>
	<b>Remainder of 2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Thereafter</b>	
	<b>CLP in billions</b>							
Programming commitments .....	9.8	40.5	40.9	26.6	—	—	—	117.8
Network and connectivity commitments .....	4.8	19.6	17.6	16.1	17.4	14.2	—	89.7
Operating leases .....	2.4	9.7	9.7	9.7	—	—	—	31.5
Purchase commitments .....	1.6	5.2	3.0	—	—	—	—	9.8
Total (a).....	<u>18.6</u>	<u>75.0</u>	<u>71.2</u>	<u>52.4</u>	<u>17.4</u>	<u>14.2</u>	<u>—</u>	<u>248.8</u>

(a) The commitments reflected in this table do not reflect any liabilities that are included in our September 30, 2014 condensed consolidated balance sheet.

Programming commitments consist of obligations associated with certain of our programming contracts that are enforceable and legally binding on us in that 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. 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. Payments to programming vendors have in the past represented, and are expected to continue to represent in the future, a significant portion of our operating costs. In this regard, during the nine months ended September 30, 2014 and 2013, the third-party programming and copyright costs incurred by our broadband communications operations aggregated CLP 64.7 billion and CLP 57.1 billion, respectively.

Network and connectivity commitments relate to VTR Wireless' MVNO agreement. The amounts reflected in the table with respect to these commitments 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 purchase obligations associated with commitments to purchase handset equipment that are enforceable and legally binding on us.

In addition to the commitments set forth in the table above, we have significant commitments under derivative instruments, pursuant to which we expect to make payments in future periods. For information concerning our derivative instruments, including the net cash paid or received in connection with these instruments during the nine months ended September 30, 2014 and 2013, see note 3.

***Guarantees and Other Credit Enhancements***

In the ordinary course of business, we may provide indemnifications to our lenders, our vendors and certain other parties and 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***

*TVN Proceedings.* Cable television providers in Chile, including VTR GlobalCom, have historically retransmitted programming from public broadcasters without paying any fees to the broadcasters for such retransmission. Certain broadcasters have filed lawsuits against VTR GlobalCom claiming that by retransmitting their signals, VTR GlobalCom has violated the broadcasters' intellectual property rights or Chilean antitrust laws. In 2003, two major broadcasters, including Televisión Nacional de Chile (TVN), filed a lawsuit against VTR GlobalCom claiming that VTR GlobalCom's retransmission of the broadcasters' signals violated their intellectual property rights. The lower court dismissed these claims in 2006, and the Court of Appeals of Santiago confirmed the lower court's decision finding that no compensation or authorization was required as long as VTR GlobalCom retransmits the signal simultaneously, without modifying it, and in the same geographic area where the over-the-air signal is transmitted. On June 3, 2013, the Chilean Supreme Court of Justice ratified this decision. In 2010, TVN filed a second lawsuit (the Second TVN Lawsuit) against VTR GlobalCom claiming that VTR GlobalCom was not authorized to retransmit TVN's experimental high definition (HD) signal. On July 17, 2012, the first instance tribunal ruled in favor of TVN in the Second TVN Lawsuit and ordered VTR GlobalCom (i) to stop retransmitting TVN's HD signal (DTT signal) and (ii) to pay damages, which would be established at the time of enforcing the judgment. VTR GlobalCom appealed the ruling of the first instance tribunal and, on October 27, 2014, the Court of Appeals of Santiago confirmed the ruling of the first instance tribunal in the Second TVN Lawsuit. Accordingly, VTR GlobalCom will cease transmitting TVN's DTT signal by the end of 2014. VTR GlobalCom believes that its retransmission of TVN's DTT signal complies with applicable law and has filed an appeal of the Court of Appeals' decision with the Chilean Supreme Court. We expect a decision on the appeal during the second half of 2015.

On January 6, 2014, VTR GlobalCom was notified of a third lawsuit filed against it by TVN (the Third TVN Lawsuit), requesting termination of a 1996 contract between TVN and VTR GlobalCom based on VTR GlobalCom's alleged unauthorized retransmission of TVN's analogue signal, with the amount of damages to be determined at a later date. On January 27, 2014, we filed our answer denying all of the claims made in the Third TVN Lawsuit. VTR GlobalCom believes that the Third TVN Lawsuit is without merit and intends to defend itself vigorously.

We are not in a position to reasonably estimate the range of loss that might be incurred by VTR GlobalCom in the event of an unfavorable outcome in the Second TVN Lawsuit or the Third TVN Lawsuit because, among other matters (including that, with respect to the Third TVN Lawsuit, the discovery phase has not commenced), the amount of damages has not been specified and we cannot predict the final outcome of these proceedings.

*Other Regulatory Issues.* Broadband communications and mobile businesses are regulated in Chile. Adverse regulatory developments could subject our businesses to a number of risks. Regulation, including conditions imposed on us by competition or other authorities as a requirement to close acquisitions or dispositions, could limit growth, revenue and the number and types of services offered and could lead to increased operating costs and property and equipment additions. In addition, regulation may restrict our operations and subject them to further competitive pressure, including pricing restrictions, interconnect and other access obligations, and restrictions or controls on content, including content provided by third parties. Failure to comply with current or future regulation could expose our businesses to various penalties. During September 2014, we received a tariff proposal from the Chilean regulatory authority that would have retroactive effect to June 2012. The tariff proposal represents a significant reduction in the fixed-line interconnection rates we currently charge. We are in the process of formulating our objections and comments to the tariff proposal and are currently unable to reasonably predict the outcome of the tariff-setting process. We have continued to recognize fixed-line interconnect revenue at the currently enacted rates. Final resolution of the tariff-setting process in Chile is expected to occur during the first half of 2015. If the September 2014 tariff proposal were ultimately to be upheld, including retroactive application to June 2012, we would be required to issue credit notes of approximately CLP 6.7 billion for revenue previously recognized through September 30, 2014.

*Other.* In addition to the foregoing items, we have contingent liabilities related to matters arising in the ordinary course of business, including (i) legal proceedings, (ii) issues involving value-added taxes and wage, property and other tax issues and (iii) disputes over interconnection, programming, copyright and carriage 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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**(11) Segment Reporting**

We operate in one geographical area, the country of Chile. We operate in one segment, within which we provide video, broadband internet, fixed-line telephony and mobile services to residential and/or small business customers.

Our revenue by major category is set forth below:

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>CLP in billions</b>			
Subscription revenue (a):				
Video.....	54.5	51.5	161.5	151.5
Broadband internet.....	40.4	37.0	118.6	107.2
Fixed-line telephony .....	22.9	23.3	68.0	70.0
Cable subscription revenue .....	117.8	111.8	348.1	328.7
Mobile subscription revenue (b).....	3.8	2.5	9.6	7.8
Total subscription revenue.....	121.6	114.3	357.7	336.5
Other revenue (b) (c).....	7.6	9.7	23.3	28.5
Total revenue.....	129.2	124.0	381.0	365.0

- (a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees. Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our cable and mobile products or the composition of bundles can contribute to changes in our product revenue categories from period to period.
- (b) Mobile subscription revenue excludes mobile interconnect revenue of CLP 0.3 billion and CLP 0.8 billion during the three months ended September 30, 2014 and 2013, respectively, and CLP 1.1 billion and CLP 2.3 billion during the nine months ended September 30, 2014 and 2013, respectively. Mobile interconnect revenue and revenue from mobile handset sales are included in other revenue.
- (c) Other revenue includes, among other items, interconnect, advertising, installation and mobile handset sales revenue.

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

The following discussion and analysis, which should be read in conjunction with our condensed consolidated financial statements and the discussion and analysis included in our 2013 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, 2014 and 2013.
- *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" refer, as the context requires, to VTR Finance or collectively to VTR.

Unless otherwise indicated, convenience translations into the Chilean peso are calculated, and operational data (including subscriber statistics) are presented, as of September 30, 2014.

### Forward-Looking Statements

Certain statements in this quarterly report constitute forward-looking statements. To the extent that statements in this quarterly report are not recitations of historical fact, such statements constitute forward-looking statements, which, by definition, involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. In particular, statements under *Management's Discussion and Analysis of Financial Condition and Results of Operations* may contain forward-looking statements, including statements regarding our business, product, foreign currency and finance strategies, our property and equipment additions, subscriber growth and retention rates, competitive, regulatory and economic factors, the maturity of our markets, the anticipated impacts of new legislation (or changes to existing rules and regulations), anticipated revenue decreases or cost increases, liquidity, credit risks, foreign currency risks and target leverage levels. 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 risks and uncertainties in the following list of some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

- economic and business conditions and industry trends in Chile;
- the competitive environment in Chile, including competitor responses to our products and services;
- fluctuations in currency exchange rates and interest rates;
- instability in global financial markets, including sovereign debt issues and related fiscal reforms;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt;
- changes in consumer television viewing preferences and habits;
- consumer acceptance of our existing service offerings, including our digital 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 digital 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 opens our broadband distribution networks to competitors;
- our ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions and dispositions and the impact of conditions imposed by competition and other regulatory authorities in connection with acquisitions;
- our ability to successfully acquire new businesses and, if acquired, to integrate, realize anticipated efficiencies from, and implement our business plan with respect to, the businesses we have or may acquire;
- changes in laws or treaties relating to taxation, or the interpretation thereof, in Chile and the Netherlands;
- changes in laws and government regulations that may impact the availability and cost of credit and the derivative instruments that hedge certain of our financial risks;
- the ability of suppliers and vendors to timely deliver quality products, equipment, software and services;
- the availability of attractive programming for our digital video services and the costs associated with such programming, including retransmission and copyright fees payable to public and private broadcasters;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- our ability to adequately forecast and plan future network requirements;
- the availability of capital for the acquisition and/or development of telecommunications networks and services;
- problems we may discover post-closing with the operations, including the internal controls and financial reporting process, of businesses we acquire;
- leakage of sensitive customer data;
- the outcome of any pending or threatened litigation;
- the loss of key employees and the availability of qualified personnel;
- changes in the nature of key strategic relationships with partners and joint venturers; and
- events that are outside of our control, such as political unrest in international markets, terrorist attacks, malicious human acts, natural disasters, pandemics and other similar events.

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



## Overview

We are a provider of video, broadband internet, fixed-line telephony and mobile services in Chile. We provide (i) video, broadband internet and fixed-line telephony services through VTR GlobalCom and (ii) mobile services through VTR Wireless.

Our revenue includes revenue earned from (i) subscribers for broadband communications and mobile services and (ii) interconnect fees, advertising and installation fees. Consistent with the presentation of our revenue categories in note 11 to our condensed consolidated financial statements, we use the term “subscription revenue” in the following discussion to refer to amounts received from subscribers for ongoing services, excluding installation fees. In the following tables, mobile subscription revenue excludes the related interconnect revenue.

At September 30, 2014, we owned and operated networks that passed 2,968,900 homes and served 2,647,000 revenue generating units (RGUs), consisting of 1,009,000 video subscribers, 932,600 broadband internet subscribers and 705,400 fixed-line telephony subscribers. In addition, at September 30, 2014, VTR Wireless served 100,700 mobile subscribers.

We added a total of 9,200 and 82,200 RGUs on an organic basis during the three and nine months ended September 30, 2014, respectively, as compared to 29,000 and 122,800 RGUs added on an organic basis during the corresponding periods in 2013. The organic RGU growth during the three and nine months ended September 30, 2014 is primarily attributable to the net effect of (i) increases of 11,600 and 46,900 broadband internet services RGUs, respectively, (ii) increases of 7,100 and 38,200 digital cable services RGUs, respectively, (iii) an increase (decrease) of (3,500) and 15,700 fixed-line telephony RGUs, respectively, and (iv) decreases of 6,000 and 18,600 analog cable RGUs, respectively.

We are experiencing significant competition from (i) incumbent telecommunications operators, (ii) direct-to-home satellite operators and/or (iii) other providers. This competition may have an adverse impact on our ability to increase or maintain our RGUs and/or average monthly subscription revenue per RGU (ARPU).

The rates charged for certain video services offered by our broadband communications operations are subject to oversight and control, either before or after the fact, based on competition law, general pricing regulations or other arrangements with the government of Chile. Additionally, our ability to bundle or discount our broadband communications and mobile services is subject to certain limitations. Adverse outcomes from rate regulation or other regulatory initiatives could have a significant negative impact on our ability to maintain or increase our revenue.

We pay interconnection fees to other telephony providers when calls or text messages from our subscribers terminate on another network, and we receive similar fees from such providers when calls or text messages from their customers terminate on our network or networks that we access through MVNO or other arrangements. The amounts we charge and incur with respect to fixed-line telephony and mobile interconnection fees are subject to regulatory oversight in our markets. To the extent that regulatory authorities introduce fixed-line or mobile termination rate changes, we would experience prospective changes and, in cases such as the one described in note 10 to our condensed consolidated financial statements, we could experience retroactive changes in our interconnect revenue and/or costs. The ultimate impact of any such changes in termination rates on our operating cash flow, as defined in *Material Changes in Results of Operations*, would be dependent on the call or text messaging patterns that are subject to the changed termination rates.

Most of our revenue is derived from jurisdictions that administer value-added or similar revenue-based taxes. Any increases in these taxes could have an adverse impact on our ability to maintain or increase our revenue to the extent that we are unable to pass such tax increases on to our customers. In the case of revenue-based taxes for which we are the ultimate taxpayer, we will also experience increases in our operating expenses and corresponding declines in our operating cash flow and operating cash flow margins to the extent of any such tax increases.

## Material Changes in Results of Operations

### Revenue

Our revenue by major category is set forth below:

	Three months ended September 30,		Increase (decrease)	
	2014	2013	CLP	%
	CLP in billions			
Subscription revenue (a):				
Video.....	54.5	51.5	3.0	5.8
Broadband internet.....	40.4	37.0	3.4	9.2
Fixed-line telephony .....	22.9	23.3	(0.4)	(1.7)
Cable subscription revenue.....	117.8	111.8	6.0	5.4
Mobile subscription revenue (b).....	3.8	2.5	1.3	52.0
Total subscription revenue.....	121.6	114.3	7.3	6.4
Other revenue (b) (c).....	7.6	9.7	(2.1)	(21.6)
Total revenue.....	129.2	124.0	5.2	4.2
	CLP in billions			
	Nine months ended September 30,		Increase (decrease)	
	2014	2013	CLP	%
	CLP in billions			
Subscription revenue (a):				
Video.....	161.5	151.5	10.0	6.6
Broadband internet.....	118.6	107.2	11.4	10.6
Fixed-line telephony .....	68.0	70.0	(2.0)	(2.9)
Cable subscription revenue.....	348.1	328.7	19.4	5.9
Mobile subscription revenue (b).....	9.6	7.8	1.8	23.1
Total subscription revenue.....	357.7	336.5	21.2	6.3
Other revenue (b) (c).....	23.3	28.5	(5.2)	(18.2)
Total revenue.....	381.0	365.0	16.0	4.4

- (a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees. Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our cable and mobile products or the composition of bundles can contribute to changes in our product revenue categories from period to period.
- (b) Mobile subscription revenue excludes mobile interconnect revenue of CLP 0.3 billion and CLP 0.8 billion during the three months ended September 30, 2014 and 2013, respectively, and CLP 1.1 billion and CLP 2.3 billion during the nine months ended September 30, 2014 and 2013, respectively. Mobile interconnect revenue and revenue from mobile handset sales are included in other revenue.
- (c) Other revenue includes, among other items, interconnect, advertising, installation and mobile handset sales revenue.

Our consolidated revenue increased CLP 5.2 billion or 4.2% and CLP 16.0 billion or 4.4% during the three and nine months ended September 30, 2014, respectively, as compared to the corresponding periods in 2013, as set forth below:

	Three-month period			Nine-month period		
	Subscription revenue	Non-subscription revenue	Total	Subscription revenue	Non-subscription revenue	Total
	CLP in billions					
Increase in cable subscription revenue due to change in:						
Average number of RGUs (a).....	4.4	—	4.4	14.6	—	14.6
ARPU (b).....	1.6	—	1.6	4.8	—	4.8
Total increase in cable subscription revenue .....	6.0	—	6.0	19.4	—	19.4
Increase in mobile subscription revenue (c).....	1.3	—	1.3	1.8	—	1.8
Total increase in subscription revenue .....	7.3	—	7.3	21.2	—	21.2
Decrease in non-subscription revenue (d)...	—	(2.1)	(2.1)	—	(5.2)	(5.2)
Total .....	7.3	(2.1)	5.2	21.2	(5.2)	16.0

- (a) The increases in cable subscription revenue related to changes in the average numbers of RGUs are attributable to increases in the average numbers of digital cable, broadband internet and fixed-line telephony RGUs that were only partially offset by declines in the average numbers of analog cable RGUs.
- (b) The increases in cable subscription revenue related to changes in ARPU are due to (i) net increases resulting from the following factors: (a) lower ARPU due to the impacts of higher bundling and promotional discounts, (b) higher ARPU due to the inclusion of higher-priced tiers of broadband internet and fixed-line telephony services in our bundles, (c) higher ARPU due to semi-annual inflation and other price adjustments for video, broadband internet and fixed-line telephony services, (d) higher ARPU from incremental digital cable services and (e) lower ARPU due to decreases in fixed-line telephony call volumes for customers on usage-based plans and (ii) improvements in RGU mix.
- (c) The increases in mobile subscription revenue are attributable to the net effect of (i) increases in mobile ARPU, primarily due to higher proportions of mobile subscribers on postpaid plans, which generate higher ARPU than prepaid plans, and (ii) decreases in the average numbers of mobile subscribers.
- (d) The decreases in non-subscription revenue are due primarily to (i) decreases in interconnect revenue, primarily associated with a January 2014 decline in mobile terminations rates, and (ii) decreases in prepaid mobile handset sales. For information regarding an ongoing tariff-setting process in Chile that may impact our non-subscription revenue, see note 10 to our condensed consolidated financial statements.

#### *Operating expenses*

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

Our operating expenses decreased CLP 2.5 billion or 4.1% and CLP 5.2 billion or 3.0% during the three and nine months ended September 30, 2014, respectively, as compared to the corresponding periods in 2013. Our operating expenses include share-based compensation expense, which increased CLP 0.2 billion and CLP 0.5 billion, respectively. For additional information, see the discussion under *Share-based compensation expense* below. Excluding the effects of share-based compensation expense, our operating expenses decreased CLP 2.7 billion or 4.4% and CLP 5.7 billion or 3.3%, respectively. These decreases include the following factors:

- Increases in programming and copyright costs of CLP 2.3 billion or 11.5% and CLP 7.6 billion or 13.3%, respectively, primarily associated with (i) growth in digital cable services and (ii) increases arising from foreign currency exchange rate fluctuations with respect to VTR GlobalCom's U.S. dollar denominated programming contracts. A significant portion of VTR GlobalCom's programming costs are denominated in U.S. dollars;
- Decreases in facilities expenses of CLP 1.9 billion or 83.8% and CLP 6.5 billion or 86.2%, respectively, due primarily to lower tower and real estate rental costs, as the fair value of all remaining payments due under these leases was included in the restructuring charges recorded by VTR Wireless during the third and fourth quarters of 2013 in connection with certain strategic changes that were implemented with regard to its mobile operations;
- A decrease during the nine-month period in outsourced labor and professional fees of CLP 2.5 billion or 16.2%, primarily attributable to the net effect of (i) lower costs associated with VTR Wireless' network operating center, (ii) the impact of a CLP 1.5 billion nonrecurring charge recorded during the second quarter of 2013 to provide for VTR GlobalCom's mandated share of severance and other labor-related obligations that were incurred by a VTR GlobalCom contractor in connection with such contractor's bankruptcy and (iii) increased costs related to call center and technical services costs;
- Decreases in VTR Wireless' mobile handset costs of CLP 1.9 billion or 44.6% and CLP 2.4 billion or 27.6%, respectively, primarily attributable to (i) a decrease of CLP 1.8 billion in each period related to the third quarter 2013 liquidation or write-off of slow moving or obsolete handsets and wireless network adaptors and (ii) decreases in mobile handset sales due to a reduced emphasis on prepaid plans;
- A decrease during the nine-month period in bad debt and collection expenses of CLP 1.2 billion or 7.7%, primarily at VTR Wireless. This decrease is primarily due to more selective credit acceptance policies;
- Increases in personnel costs of CLP 0.1 billion or 1.5% and CLP 1.2 billion or 6.0%, respectively, due primarily to the net effect of (i) higher bonus costs at VTR GlobalCom and (ii) decreased staffing levels at VTR Wireless, primarily resulting from the strategic changes that were implemented with regard to VTR Wireless' mobile operations;
- Decreases in mobile access and interconnect costs of CLP 0.1 billion or 0.9% and CLP 0.8 billion or 2.6%, respectively, primarily attributable to the net effect of (i) lower mobile access charges due to the impacts of lower rates and (ii) a slight decrease during the three-month period and a slight increase during the nine-month period in interconnect costs at VTR GlobalCom resulting from the net effect of (a) lower rates and (b) higher call volumes; and
- Net decreases resulting from individually insignificant changes in other operating expense categories.

#### *SG&A expenses*

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

Our SG&A expenses increased CLP 0.8 billion or 3.7% and CLP 4.5 billion or 7.0% during the three and nine months ended September 30, 2014, respectively, as compared to the corresponding periods in 2013. Our SG&A expenses include share-based compensation expense, which increased CLP 0.2 billion and CLP 0.9 billion, respectively. For additional information, see the discussion under *Share-based compensation expense* below. Excluding the effects of share-based compensation expense, our SG&A expenses increased CLP 0.6 billion or 2.3% and CLP 3.6 billion or 5.6%, respectively. These increases include the following factors:

- Increases in sales and marketing costs of CLP 1.4 billion or 23.7% and CLP 4.9 billion or 26.0%, respectively, primarily due to the net effect of (i) higher third-party sales commissions and advertising costs at VTR GlobalCom and (ii) lower third-party sales commissions at VTR Wireless; and
- Decreases in personnel costs of CLP 0.9 billion or 11.4% and CLP 1.4 billion or 5.9%, respectively, predominately at VTR GlobalCom, primarily due to the net effect of (i) decreases due to lower staffing levels, (ii) an increase during the nine-month period due to higher severance costs and (iii) increases due to higher bonus costs.

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

We recognized share-based compensation expense of CLP 0.9 billion and CLP 0.5 billion during the three months ended September 30, 2014 and 2013, respectively, and CLP 2.4 billion and CLP 1.0 billion during the nine months ended September 30, 2014 and 2013, respectively. The expense recognized is related to performance share unit awards granted pursuant to a liability-based plan of VTR GlobalCom.

#### *Depreciation and amortization expense*

Our depreciation and amortization expense decreased CLP 28.1 billion and CLP 56.8 billion during the three and nine months ended September 30, 2014, respectively, as compared to the corresponding periods in 2013. These decreases are due primarily to the net effect of (i) decreases due to the impact of accelerated depreciation of VTR Wireless' mobile network during the second and third quarters of 2013 due to a change in our mobile strategy, as further discussed in note 5 to our condensed consolidated financial statements, (ii) decreases associated with certain assets becoming fully depreciated and (iii) increases associated with property and equipment additions related to the installation of customer premises equipment, the expansion and upgrade of our networks and other capital initiatives.

#### *Related-party fees and allocations*

We recorded net charges (credits) related to our related-party fees and allocations of (CLP 0.4 billion) and CLP 0.4 billion during the three months ended September 30, 2014 and 2013, respectively, and CLP 3.4 billion and CLP 1.2 billion during the nine months ended September 30, 2014 and 2013, respectively. These amounts include (i) charges that originate with UPC Holding, which became effective January 1, 2014 in connection with the VTR Extraction, and (ii) charges that originate with another Liberty Global subsidiary. These amounts include charges for management, finance, legal, technology, marketing and other services that support our company's broadband communications and mobile operations. For additional information regarding our related-party fees and allocations, see note 9 to our condensed consolidated financial statements.

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

We recognized impairment, restructuring and other operating items, net, of CLP 1.2 billion and CLP 43.4 billion during the three months ended September 30, 2014 and 2013, respectively, and CLP 2.5 billion and CLP 43.2 billion during the nine months ended September 30, 2014 and 2013, respectively. The 2014 amounts primarily relate to contract termination costs. The 2013 amounts primarily relate to restructuring charges that include (i) CLP 39.7 billion recorded at VTR Wireless during the third quarter, comprising CLP 35.8 billion of contract termination costs with respect to the discounted amount of the remaining payments due under VTR Wireless' tower and real estate operating leases and CLP 3.9 billion with respect to the discounted amount of the remaining payments to be incurred in connection with the removal of the VTR Wireless' equipment from the associated towers, and (ii) CLP 3.9 billion of employee severance and termination costs related to certain reorganization activities.

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

### *Interest expense – third-party*

Our third-party interest expense increased CLP 13.7 billion and CLP 36.3 billion during the three and nine months ended September 30, 2014, respectively, as compared to the corresponding periods in 2013. These increases are primarily attributable to a higher average outstanding debt balance, due primarily to the issuance of the VTR Senior Secured Notes. For additional information regarding our third-party indebtedness, see note 6 to our condensed consolidated financial statements.

It is possible that (i) the interest rates on any new borrowings could be higher than the current interest rates on our existing indebtedness and (ii) the interest rates on our variable-rate indebtedness could increase in future periods. As further discussed in note 3 to our condensed consolidated financial statements, we use derivative instruments to manage our interest rate risks.

### *Interest expense – related-party*

Our related-party interest expense primarily relates to the interest expense on the UPC Broadband France Loan and the UPC Chile Mobile Shareholder Loan. Related-party interest expense decreased CLP 2.8 billion and CLP 7.7 billion during the three and nine months ended September 30, 2014, respectively, as compared to the corresponding periods in 2013. These decreases are due to the effective settlement of the UPC Broadband France Loan and settlement of the UPC Chile Mobile Shareholder Loan in January 2014.

### *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,	
	2014	2013	2014	2013
	CLP in billions			
Cross-currency and interest rate derivative contracts (a).....	89.3	(4.0)	18.2	2.6
Foreign currency forward contracts .....	1.1	(0.2)	1.6	0.3
Total.....	<u>90.4</u>	<u>(4.2)</u>	<u>19.8</u>	<u>2.9</u>

- (a) The gain during the 2014 three-month period is primarily attributable to the net effect of (i) gains associated with a decrease in the value of the Chilean peso relative to the U.S. dollar, (ii) losses associated with increases in market interest rates in the U.S. dollar market and (iii) gains associated with increases in market interest rates in the Chilean peso market. The gain during the 2014 nine-month period is primarily attributable to the net effect of (a) gains associated with a decrease in the value of the Chilean peso relative to the U.S. dollar, (b) losses associated with decreases in market interest rates in the Chilean peso market and (c) losses associated with increases in market interest rates in the U.S. dollar market. In addition, the gains during the 2014 periods include net losses of CLP 2.6 billion and CLP 8.9 billion, respectively, resulting from changes in our credit risk valuation adjustments. The loss during the 2013 three-month period is primarily attributable to (1) losses associated with an increase in the value of the Chilean peso relative to the U.S. dollar and (2) losses associated with decreases in market interest rates in the Chilean peso market. The gain during the 2013 nine-month period is primarily attributable to the net effect of (A) gains associated with a decrease in the value of the Chilean peso relative to the U.S. dollar and (B) losses associated with decreases in market interest rates in the Chilean peso market. In addition, the gain (loss) during the 2013 periods includes net losses of nil and CLP 0.5 billion, respectively, resulting from changes in our credit risk valuation adjustments. In January 2014, we entered into new derivative instruments and settled our then existing derivative instruments in connection with the VTR Extraction and issuance of the VTR Senior Secured Notes.

For additional information regarding our derivative instruments, see note 3 to our condensed consolidated financial statements.

### *Foreign currency transaction gains (losses), net*

We recognized foreign currency transaction gains (losses), net, of (CLP 59.8 billion) and CLP 5.0 billion during the three months ended September 30, 2014 and 2013, respectively, and CLP (47.6 billion) and (CLP 7.9 billion) during the nine months ended September 30, 2014 and 2013, respectively.

Our foreign currency transaction gains or losses primarily result from the remeasurement of our U.S. dollar denominated debt instruments, including (i) the VTR Senior Secured Notes during the 2014 periods and (ii) the UPC Broadband France Loan and the UPC Chile Mobile Shareholder Loan during the 2013 periods. Unrealized foreign currency transaction gains or losses are computed based on period-end exchange rates and are non-cash in nature until such time as the amounts are settled.

*Other expense, net*

We recognized other expense, net, of CLP 0.1 billion and CLP 0.3 billion during the three months ended September 30, 2014 and 2013, respectively, and CLP 1.6 billion and CLP 1.2 billion during the nine months ended September 30, 2014 and 2013, respectively. Other expense, net, during the 2014 nine-month period includes a CLP 1.1 billion loss on debt modification and extinguishment related to the write-off of deferred financing costs associated with the repayment of the VTR Wireless Bank Facility, as further described in note 6 to our condensed consolidated financial statements.

*Income tax benefit (expense)*

We recognized income tax expense of CLP 3.3 billion and income tax benefit of CLP 12.3 billion during the three months ended September 30, 2014 and 2013, respectively.

The income tax expense during the three months ended September 30, 2014 differs from the expected income tax expense of CLP 10.4 billion (based on the Dutch statutory income tax rate of 25.0%) due primarily to the positive impacts of (i) an increase in net deferred tax assets in Chile due to enacted changes in tax law and (ii) a lower statutory tax rate in Chile, as compared to the Netherlands. The positive impacts of these items are partially offset by the negative impact of a net increase in valuation allowances.

The income tax benefit during the three months ended September 30, 2013 differs from the expected income tax benefit of CLP 14.0 billion (based on the Dutch statutory income tax rate of 25.0%) due primarily to the negative impact of a lower statutory tax rate in Chile, as compared to the Netherlands. The negative impact of this item was partially offset by the positive impact of certain permanent differences between financial and tax accounting treatment of price level adjustments.

We recognized income tax benefit of CLP 0.7 billion and CLP 13.0 billion during the nine months ended September 30, 2014 and 2013, respectively.

The income tax benefit during the nine months ended September 30, 2014 differs from the expected income tax expense of CLP 0.5 billion (based on the Dutch statutory income tax rate of 25.0%) due primarily to the positive impact of an increase in net deferred tax assets in Chile due to enacted changes in tax law. The positive impact of this item is offset by the negative impacts of (i) a net increase in valuation allowances and (ii) the nonrecognition of intercompany tax benefits.

The income tax benefit during the nine months ended September 30, 2013 differs from the expected income tax benefit of CLP 14.7 billion (based on the Dutch statutory income tax rate of 25.0%) due primarily to the negative impact of a lower statutory tax rate in Chile, as compared to the Netherlands. The negative impact of this item was partially offset by the positive impact of certain permanent differences between financial and tax accounting treatment of price level adjustments.

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

*Net earnings (loss)*

During the three months ended September 30, 2014 and 2013, we reported net earnings (loss) of CLP 38.1 billion and (CLP 43.5 billion), respectively, including (i) operating income (loss) of CLP 25.9 billion and (CLP 52.1 billion), respectively, (ii) non-operating income (expense) of CLP 15.5 billion and (CLP 3.7 billion), respectively, and (iii) income tax benefit (expense) of (CLP 3.3 billion) and CLP 12.3 billion, respectively.

During the nine months ended September 30, 2014 and 2013, we reported net earnings (loss) of CLP 2.7 billion and (CLP 45.7 billion), respectively, including (i) operating income (loss) of CLP 70.9 billion and (CLP 41.1 billion), respectively, (ii) non-operating expense of CLP 68.9 billion and CLP 17.6 billion, respectively, and (iii) income tax benefit of CLP 0.7 billion and CLP 13.0 billion, respectively.

Gains or losses associated with (i) changes in the fair values of derivative instruments, (ii) movements in foreign currency exchange rates and (iii) the disposition of assets 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 aggregate operating cash flow to a level that more than offsets the aggregate amount of our (a) depreciation and amortization, (b) impairment, restructuring and other operating items, net, (c) interest expense, (d) other net non-operating expenses and (e) income tax expenses. Operating

cash flow is defined as revenue less operating expenses and SG&A expenses (excluding share-based compensation, related-party fees and allocations, depreciation and amortization and impairment, restructuring and other operating items).

#### *Net loss attributable to noncontrolling interests*

Net loss attributable to noncontrolling interests includes the NCI Owner's share of the results of operations of VTR GlobalCom and VTR Wireless. Net loss attributable to noncontrolling interests was nil and CLP 10.6 billion during the three months ended September 30, 2014 and 2013, respectively, and CLP 2.5 billion and CLP 11.7 billion during the nine months ended September 30, 2014 and 2013, respectively. In March 2014, VTR Chile Holdings acquired each of the 20.0% noncontrolling ownership interests in VTR GlobalCom and VTR Wireless from the NCI Owner. For additional information regarding the VTR NCI Acquisition, see note 8 to our condensed consolidated financial statements.

### **Material Changes in Financial Condition**

#### *Sources and Uses of Cash*

At September 30, 2014, we had cash and cash equivalents of CLP 35.7 billion, substantially all of which was held by our subsidiaries. In addition to our existing cash and cash equivalents, the primary source of our liquidity is cash provided by operations and availability under the VTR Senior Credit Facility, which we entered into in January 2014, as further described in note 6 to our condensed consolidated financial statements. From time to time, subsidiaries of Liberty Global may also agree to provide funding to VTR in the form of subordinated loans or equity contributions.

Although VTR GlobalCom historically has generated net cash from its operating activities, VTR Wireless has required debt and equity financing to fund its operations and property and equipment additions since its inception. VTR Finance's ability to access the liquidity of VTR GlobalCom and VTR Wireless may be limited by tax considerations and other factors.

Our liquidity is generally used to fund property and equipment additions and, to the extent applicable, debt service requirements. From time to time, we may also require cash in connection with (i) the repayment of any outstanding debt, (ii) distributions or loans to our owners, (iii) the satisfaction of contingencies or (iv) acquisitions and other investment opportunities.

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

#### *Capitalization*

Our ability to service or refinance our debt and to maintain compliance with the leverage covenants in the credit agreement of the VTR Senior Credit Facility and the indenture for the VTR Senior Secured Notes is dependent primarily on our ability to maintain or increase the operating cash flow of our operating subsidiaries and to achieve adequate returns on our property and equipment additions and acquisitions. In addition, our ability to obtain additional debt financing is limited by the covenants contained under the VTR Senior Credit Facility and the VTR Senior Secured Notes. In this regard, if our operating cash flow were to decline, we could be required to partially repay or limit our borrowings under the VTR Senior Credit Facility or any then existing debt in order to maintain compliance with applicable covenants. No assurance can be given that we would have sufficient sources of liquidity, or that any funding would be available on favorable terms, or at all, to fund any such required repayment. The ability to access available borrowings under the VTR Senior Credit Facility and/or our ability to complete additional financing transactions can also be impacted by the interplay of average and spot foreign currency rates with respect to leverage calculations under the credit agreement of the VTR Senior Credit Facility and the indenture for the VTR Senior Secured Notes. At September 30, 2014, we were in compliance with our debt covenants. In addition, we do not anticipate any instances of non-compliance with respect to our debt covenants that would have a material adverse impact on our liquidity during the next 12 months.

At September 30, 2014, our outstanding consolidated debt and capital lease obligations aggregated CLP 838.1 billion, substantially all of which is due in 2024.

We believe that we have sufficient resources to fund our foreseeable liquidity requirements during the next 12 months. However, as our maturing debt grows in later years, we anticipate that we will seek to refinance or otherwise extend our debt maturities. No assurance can be given that we will be able to complete these refinancing transactions or otherwise extend our debt maturities. In this regard, it is not possible to predict how political and economic conditions, sovereign debt concerns or any adverse regulatory developments could impact the credit and equity markets we access and, accordingly, our future liquidity and financial position. However, (i) the financial failure of any of our counterparties could (a) reduce amounts available under our committed credit facility and (b) adversely impact our ability to access cash deposited with any failed financial institution and (ii) tightening of the credit markets could adversely impact our ability to access debt financing on favorable terms, or at all. In addition, sustained or



increased competition, particularly in combination with adverse economic or regulatory developments, could have an unfavorable impact on our cash flows and liquidity.

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

*Summary.* Our condensed consolidated statements of cash flows for the nine months ended September 30, 2014 and 2013 are summarized as follows:

	<b>Nine months ended September 30,</b>		<b>Change</b>
	<b>2014</b>	<b>2013</b>	
	<b>CLP in billions</b>		
Net cash provided by operating activities .....	83.4	81.4	2.0
Net cash used by investing activities .....	(102.7)	(78.0)	(24.7)
Net cash provided (used) by financing activities .....	(33.3)	1.0	(34.3)
Effect of exchange rate changes on cash .....	1.4	(0.1)	1.5
Net increase (decrease) in cash and cash equivalents .....	<u>(51.2)</u>	<u>4.3</u>	<u>(55.5)</u>

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

*Investing Activities.* The increase in net cash used by our investing activities is primarily attributable to the net effect of (i) an increase in cash used of CLP 31.2 billion related to advances in connection with the Lila Chile Note Receivable and (ii) a decrease in cash used of CLP 5.5 billion related to lower capital expenditures. For additional information regarding the Lila Chile Note Receivable, see note 9 to our condensed consolidated financial statements.

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

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

	<b>Nine months ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>CLP in billions</b>	
Property and equipment additions .....	83.0	72.7
Changes in current liabilities related to capital expenditures .....	(11.4)	5.0
Assets acquired under capital leases .....	—	(0.6)
Capital expenditures .....	<u>71.6</u>	<u>77.1</u>

Our consolidated property and equipment additions were CLP 83.0 billion and CLP 72.7 billion during the nine months ended September 30, 2014 and 2013, respectively. The increase in our property and equipment additions is due primarily to (i) an increase in expenditures for new build and upgrade projects, (ii) an increase in expenditures for support capital, such as information technology upgrades and general support systems, and (iii) an increase in expenditures for the purchase and installation of customer premises equipment.

*Financing Activities.* The change in net cash provided (used) by our financing activities is primarily attributable to the net effect of (i) an increase in cash of CLP 286.3 billion related to repayments of advances from related parties, (ii) an increase in cash of CLP 244.7 billion due to a change in the net amounts contributed from our parent, (iii) a decrease in cash of CLP 240.6 billion

related to the acquisition of Liberty Global shares that were used to complete the VTR NCI Acquisition, (iv) a decrease in cash of CLP 231.5 billion related to the repurchase of related-party debt, (v) a decrease in cash of CLP 62.1 billion related to higher net repayments of third-party debt and capital lease obligations, (vi) a decrease in cash of CLP 20.3 billion due to higher cash settlements of derivative instruments and (vii) a decrease in cash of CLP 15.9 billion due to higher payments of financing costs.

### ***Guarantees and Other Enhancements***

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

### ***Contractual Commitments***

The Chilean peso equivalents of our contractual commitments as of September 30, 2014 are presented below:

	<b>Payments due during:</b>							<b>Total</b>
	<b>Remainder of 2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Thereafter</b>	
	<b>CLP in billions</b>							
Debt (excluding interest) .....	—	—	—	—	—	—	837.7	837.7
Capital leases (excluding interest) .....	0.2	0.2	—	—	—	—	—	0.4
Programming commitments ...	9.8	40.5	40.9	26.6	—	—	—	117.8
Network and connectivity commitments .....	4.8	19.6	17.6	16.1	17.4	14.2	—	89.7
Operating leases .....	2.4	9.7	9.7	9.7	—	—	—	31.5
Purchase commitments .....	1.6	5.2	3.0	—	—	—	—	9.8
Total (a) .....	<u>18.8</u>	<u>75.2</u>	<u>71.2</u>	<u>52.4</u>	<u>17.4</u>	<u>14.2</u>	<u>837.7</u>	<u>1,086.9</u>
Projected cash interest payments on debt and capital lease obligations (b) .....	<u>14.5</u>	<u>57.6</u>	<u>57.6</u>	<u>57.6</u>	<u>57.6</u>	<u>57.6</u>	<u>232.7</u>	<u>535.2</u>

(a) The commitments reflected in this table do not reflect any liabilities that are included in our September 30, 2014 condensed consolidated balance sheet other than debt and capital lease obligations.

(b) Amounts are based on interest rates, interest payment dates and contractual maturities in effect as of September 30, 2014. 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 interest rate derivative contracts, deferred financing costs and commitment fees, all of which affect our overall cost of borrowing.

Programming commitments consist of obligations associated with certain of our programming contracts that are enforceable and legally binding on us in that 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. 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. Payments to programming vendors have in the past represented, and are expected to continue to represent in the future, a significant portion of our operating costs. In this regard, during the nine months ended September 30, 2014 and 2013, the third-party programming and copyright costs incurred by our broadband communications operations aggregated CLP 64.7 billion and CLP 57.1 billion, respectively.

Network and connectivity commitments relate to VTR Wireless' MVNO agreement. The amounts reflected in the table with respect to these commitments 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 purchase obligations associated with commitments to purchase handset equipment that are enforceable and legally binding on us.

In addition to the commitments set forth in the table above, we have significant commitments under derivative instruments, pursuant to which we expect to make payments in future periods. For information concerning our derivative instruments, including the net cash paid or received in connection with these instruments during the nine months ended September 30, 2014 and 2013, see note 3 to our condensed consolidated financial statements.