



**LIBERTY CABLEVISION
OF PUERTO RICO LLC**

**Condensed Consolidated Financial Statements
September 30, 2015**

LIBERTY CABLEVISION OF PUERTO RICO LLC
Urb. Industrial Tres Monjitas
1 Calle Camuñas
San Juan, Puerto Rico
00918-1485

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LIBERTY CABLEVISION OF PUERTO RICO LLC

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LIBERTY CABLEVISION OF PUERTO RICO LLC

**CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)**

	September 30, 2015	December 31, 2014
	in millions	
ASSETS		
Current assets:		
Cash.....	\$ 51.4	\$ 21.9
Trade receivables and unbilled revenue, net.....	17.9	11.2
Prepaid expenses.....	6.6	4.2
Other current assets (note 9).....	16.2	15.7
Total current assets.....	92.1	53.0
Property and equipment, net (note 6).....	363.7	272.9
Goodwill (note 6).....	277.8	226.1
Cable television franchise rights.....	584.1	436.3
Intangible assets subject to amortization, net (note 6).....	121.1	70.7
Other assets, net (note 9).....	32.3	30.0
Total assets.....	\$ 1,471.1	\$ 1,089.0
LIABILITIES AND MEMBERS' CAPITAL		
Current liabilities:		
Accounts payable (note 9).....	\$ 15.2	\$ 12.9
Deferred revenue and advance payments from subscribers.....	13.1	8.8
Third-party accrued interest.....	10.7	7.6
Accrued capital expenditures.....	7.1	4.7
Current portion of debt and capital lease obligations (note 7).....	0.5	0.5
Other accrued and current liabilities (note 10).....	44.4	35.5
Total current liabilities.....	91.0	70.0
Long-term debt and capital lease obligations (note 7):		
Third-party.....	933.7	672.5
Related-party (note 9).....	16.0	14.5
Other long-term liabilities (notes 4 and 9).....	23.3	4.4
Total liabilities.....	1,064.0	761.4
Commitments and contingencies (notes 3, 4, 8, and 11)		
Members' capital:		
Members' capital (notes 3, 8 and 9).....	475.1	327.6
Cayman Holding Loan Receivable (note 9).....	(68.0)	—
Members' capital after deducting loan receivable from member.....	407.1	327.6
Total liabilities and members' capital.....	\$ 1,471.1	\$ 1,089.0

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

LIBERTY CABLEVISION OF PUERTO RICO LLC

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
in millions				
Revenue (note 12)	\$ 104.5	\$ 76.3	\$ 274.1	\$ 227.6
Operating costs and expenses:				
Operating (other than depreciation and amortization).....	45.3	34.0	120.6	101.4
Selling, general and administrative (SG&A) (including share-based compensation) (note 9).....	13.2	9.6	33.7	31.0
Depreciation and amortization.....	20.7	15.2	53.5	43.8
Impairment, restructuring and other operating items, net (notes 3 and 10).....	0.2	1.5	7.0	2.0
	79.4	60.3	214.8	178.2
Operating income	25.1	16.0	59.3	49.4
Non-operating expense:				
Interest expense:				
Third-party	(13.2)	(9.6)	(36.7)	(33.1)
Related-party (note 9).....	(0.2)	(0.3)	(1.2)	(1.0)
Realized and unrealized losses on derivative instruments, net (note 4)	(16.3)	—	(19.3)	—
Loss on debt modification and extinguishment, net (note 7).....	—	(9.5)	—	(9.5)
Other expense	(0.2)	—	(0.2)	—
	(29.9)	(19.4)	(57.4)	(43.6)
Net earnings (loss)	\$ (4.8)	\$ (3.4)	\$ 1.9	\$ 5.8

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

LIBERTY CABLEVISION OF PUERTO RICO LLC

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' CAPITAL
(unaudited)**

	<u>Class A preferred units</u>	<u>Class B common units</u>	<u>Total members' capital</u>	<u>Cayman Holding Loan Receivable</u>	<u>Members' capital after deducting loan receivable from member</u>
	in millions				
Balance at January 1, 2015	\$ 244.2	\$ 83.4	\$ 327.6	\$ —	\$ 327.6
Net earnings.....	—	1.9	1.9	—	1.9
Impact of the Choice Acquisition (notes 3 and 9).....	—	404.9	404.9	(68.0)	336.9
Non-cash borrowing and distribution to Cayman Holding (note 3).....	—	(259.1)	(259.1)	—	(259.1)
Priority Return (note 8)	9.8	(9.8)	—	—	—
Capital charge in connection with exercise or release of share-based incentive awards (note 9)...	—	(0.5)	(0.5)	—	(0.5)
Share-based compensation (note 9).....	—	0.3	0.3	—	0.3
Balance at September 30, 2015.....	<u>\$ 254.0</u>	<u>\$ 221.1</u>	<u>\$ 475.1</u>	<u>\$ (68.0)</u>	<u>\$ 407.1</u>

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

LIBERTY CABLEVISION OF PUERTO RICO LLC

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine months ended September 30,	
	2015	2014
	in millions	
Cash flows from operating activities:		
Net earnings	\$ 1.9	\$ 5.8
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Share-based compensation expense	0.9	0.2
Depreciation and amortization	53.5	43.8
Impairment, restructuring and other operating items, net	7.0	2.0
Amortization of deferred financing costs and non-cash interest accretion	1.3	0.8
Realized and unrealized losses on derivative instruments, net.....	19.3	—
Loss on debt modification and extinguishment, net.....	—	9.5
Changes in operating assets and liabilities, net of the effects of an acquisition.....	(9.9)	(6.3)
Net cash provided by operating activities.....	<u>74.0</u>	<u>55.8</u>
Cash flows from investing activities:		
Capital expenditures.....	(46.3)	(48.2)
Cash acquired related to the Choice Acquisition.....	3.6	—
Net cash used by investing activities	<u>(42.7)</u>	<u>(48.2)</u>
Cash flows from financing activities:		
Payment of financing costs	(1.3)	(12.9)
Repayments of third-party debt and capital lease obligations	(0.4)	(13.0)
Borrowings of third-party debt	—	20.5
Other financing activities.....	(0.1)	(0.2)
Net cash used by financing activities.....	<u>(1.8)</u>	<u>(5.6)</u>
Net increase in cash	29.5	2.0
Cash:		
Beginning of period	21.9	9.5
End of period.....	<u>\$ 51.4</u>	<u>\$ 11.5</u>
Cash paid for interest.....	<u>\$ 32.5</u>	<u>\$ 24.3</u>

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

LIBERTY CABLEVISION OF PUERTO RICO LLC
Notes to Condensed Consolidated Financial Statements
September 30, 2015
(unaudited)

(1) Basis of Presentation

Liberty Cablevision of Puerto Rico LLC is a provider of video, broadband internet and fixed-line telephony services in Puerto Rico. Liberty Cablevision of Puerto Rico LLC was formed in connection with a series of transactions with certain investment funds affiliated with Searchlight Capital Partners L.P. (collectively, **Searchlight**) that were completed on November 8, 2012 (the **Puerto Rico Transaction**). This series of transactions includes the merger (the **November 2012 Merger**) of the Puerto Rican broadband communications subsidiary (**Old Liberty Puerto Rico**) of LiLAC Holdings, Inc. (**LiLAC Holdings**) with another broadband communications operator in Puerto Rico, San Juan Cable LLC, doing business as OneLink Communications (**OneLink**), with OneLink as the surviving entity. Immediately following the November 2012 Merger, OneLink changed its name to Liberty Cablevision of Puerto Rico LLC (**Liberty Puerto Rico**). On June 3, 2015, our parent company, LCPR Cayman Holding Inc. (**Cayman Holding**), together with investment funds affiliated with Searchlight, entered into an agreement with PPR Media LLC (**PPR Media**) to purchase Puerto Rico Cable Acquisition Company Inc., doing business as Choice Cable TV (**Choice**), a then subsidiary of PPR Media. Through a series of related-party transactions and immediately following the Choice Acquisition, as defined and described in note 3, Liberty Puerto Rico became the parent company of Choice. LiLAC Holdings indirectly owns a 60.0% controlling interest in Liberty Puerto Rico, with the remaining 40.0% interest indirectly owned by Searchlight. LiLAC Holdings is a wholly-owned subsidiary of Liberty Global plc (**Liberty Global**), an international provider of video, broadband internet, fixed-line telephony and mobile services. In these notes, the terms “we,” “our,” “our company” and “us” may refer, as the context requires, to Liberty Puerto Rico or collectively Liberty Puerto Rico and its subsidiary.

Our unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (**GAAP**) for interim financial information. Accordingly, these financial statements do not include all of the information required by 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 2014 financial statements and notes thereto included in our 2014 annual report.

The preparation of financial statements in conformity with 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, 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.

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

These condensed consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through November 24, 2015, the date of issuance.

(2) Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (**ASU**) No. 2014-09, *Revenue from Contracts with Customers* (**ASU 2014-09**), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09, as amended by ASU No. 2015-14, will replace existing revenue recognition guidance in GAAP when it becomes effective for annual and interim reporting periods beginning after December 15, 2017. Early application is permitted for annual and interim reporting periods that begin after December 15, 2016. This new standard permits the use of either the retrospective or cumulative effect transition method. We will adopt ASU 2014-09 effective January 1, 2018 and we are currently evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

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Notes to Condensed Consolidated Financial Statements — (Continued)
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(3) Acquisition

On June 3, 2015, pursuant to a stock purchase agreement with PPR Media and following regulatory approval, Cayman Holding paid cash in exchange for ownership shares of Choice. The purchase price was funded through (i) \$259.1 million of debt under a bridge loan facility, net of discount and fees, (ii) \$10.5 million of cash contributed to Cayman Holding from LiLAC Holdings and (iii) an equity contribution from Searchlight of \$6.8 million. Liberty Puerto Rico then issued 150 common shares to Cayman Holding in exchange for 100% ownership of Choice resulting in Choice being a wholly-owned subsidiary of Liberty Puerto Rico (the **Choice Acquisition**). In connection with these transactions, Liberty Puerto Rico borrowed \$267.5 million on the Liberty Puerto Rico Bank Facility, as defined in note 7, (\$259.1 million after deducting the applicable discount and fees) that was distributed directly to Cayman Holding and, as such, represents a non-cash borrowing and distribution of equity. Liberty Puerto Rico has been treated as the acquiring entity of Choice for financial reporting purposes.

Choice is a cable and broadband services provider in Puerto Rico. We acquired Choice in order to achieve certain financial, operational and strategic benefits through the integration of Choice with Liberty Puerto Rico. The combined business is 60%-owned by our company and 40%-owned by Searchlight.

We have accounted for the Choice Acquisition using the acquisition method of accounting, whereby the total purchase price was allocated to the acquired identifiable net assets of Choice based on assessments of their respective fair values, and the excess of the purchase price over the fair values of these identifiable net assets was allocated to goodwill. A summary of the purchase price and the preliminary opening balance sheet for the Choice Acquisition at the June 3, 2015 acquisition date is presented in the following table. The preliminary opening balance sheet is subject to adjustment based on our final assessment of the fair values of the acquired identifiable assets and liabilities. Although most items in the valuation process remain open, the items with the highest likelihood of changing upon finalization of the valuation process include property and equipment, goodwill, intangible assets associated with cable television franchise rights and customer relationships and income taxes (in millions):

Cash.....	\$	3.6
Other current assets		7.9
Property and equipment, net.....		79.8
Goodwill (a)		51.7
Intangible assets subject to amortization, net (b)		59.1
Cable television franchise rights		147.8
Other assets, net.....		0.3
Other accrued and current liabilities		(13.3)
Non-current deferred tax liabilities (c).....		(60.5)
Total purchase price (d)		276.4
Increase to members' capital associated with issuance of the Cayman Holding Loan Receivable (note 9).....		68.0
Impact of non-current deferred tax liabilities retained by parent (c)		60.5
Impact of the Choice Acquisition.....		404.9
Non-cash borrowing and distribution to Cayman Holding		(259.1)
Increase to members' capital related to the Choice Acquisition.....	\$	145.8

(a) The goodwill recognized in connection with the Choice Acquisition is primarily attributable to (i) the ability to take advantage of Choice's existing advanced broadband communications network to gain immediate access to potential customers and (ii) substantial synergies that are expected to be achieved through the integration of Choice with Liberty Puerto Rico.

(b) Amount primarily includes intangible assets related to customer relationships. As of June 3, 2015, the weighted average useful life of Choice's intangible assets was approximately ten years.

(c) Liberty Puerto Rico is not a tax-paying entity for United States (U.S.) federal or Puerto Rico income tax purposes.

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- (d) Excludes cumulative direct acquisition costs of \$8.5 million incurred during 2014 and the nine months ended September 30, 2015.

Pro Forma Information

The following unaudited pro forma condensed consolidated operating results give effect to the Choice Acquisition as if it had been completed as of January 1, 2014. These pro forma amounts are not necessarily indicative of the operating results that would have occurred if this transaction had occurred on such date. The pro forma adjustments are based on certain assumptions that we believe are reasonable.

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	in millions			
Revenue.....	\$ 104.5	\$ 98.3	\$ 311.2	\$ 292.9
Net earnings (loss).....	\$ (4.8)	\$ (2.9)	\$ 3.8	\$ 5.0

(4) Derivative Instruments

During the second quarter of 2015, we entered into derivative instruments to protect against increases in the interest rates related to our variable-rate debt. 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 liabilities:

	September 30, 2015			December 31, 2014		
	Current	Long-term (a)	Total	Current	Long-term	Total
	in millions					
Liabilities:						
Interest rate derivative contracts (b)...	\$ —	\$ 19.3	\$ 19.3	\$ —	\$ —	\$ —

- (a) Our long-term derivative liabilities are included in other long-term liabilities in our September 30, 2015 condensed consolidated balance sheet.
- (b) We consider credit risk in our fair value assessments. As of September 30, 2015, the fair values of our interest rate derivative contracts that represented liabilities have been reduced by credit risk valuation adjustments aggregating \$1.1 million. 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 credit risks, as observed in the credit default swap market and market quotations for our debt instruments, as applicable. The changes in the credit risk valuation adjustments associated with our interest rate derivative contracts resulted in net gains of \$1.6 million and \$1.1 million during the three and nine months ended September 30, 2015, respectively, which are included in realized and unrealized losses on derivative instruments, net, in our condensed consolidated statements of operations. For further information regarding our fair value measurements, see note 5.

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	in millions			
Interest rate derivative contracts	\$ (16.3)	\$ —	\$ (19.3)	\$ —

Collateral is generally not posted by either party under our derivative instruments.

Details of our Derivative Instruments

In the following table, we present the details of our derivative instruments. The notional amounts of multiple derivative instruments that mature within the same calendar month are shown in the aggregate and interest rates are presented on a weighted average basis. For derivative instruments that become effective subsequent to September 30, 2015, we present a range of dates that represents the period covered by the applicable derivative instruments.

Interest Rate Derivative Contracts

The terms of our outstanding interest rate swap contracts at September 30, 2015 are as follows:

Final maturity date	Notional amount	Interest rate due from counterparty	Interest rate due to counterparty
	in millions		
October 2016 - January 2022	\$ 506.3	3 mo. LIBOR	2.49%
October 2016 - January 2019	\$ 168.8	3 mo. LIBOR	1.96%

(5) 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, 2015 likely will not represent the value that will be paid or received upon the ultimate settlement or disposition of these liabilities. With respect to our derivative instruments, 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.

GAAP provides for a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. We record transfers of assets or liabilities into or out of Levels 1, 2 or 3 at the beginning of the quarter during which the transfer occurred. During the nine months ended September 30, 2015, no such transfers were made.

As further described in note 4, we have entered into various derivative instruments to manage our interest rate 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 most interest rate futures and swap rates, which are retrieved or derived from available market data. Although we may extrapolate or interpolate this data, we do not otherwise alter this data in performing our valuations. We incorporate a credit risk valuation adjustment in our fair value measurements to estimate the impact of both our own nonperformance risk and the nonperformance risk of our counterparties. Our and our counterparties' credit spreads represent our most significant Level 3 inputs, and these inputs are used to derive the credit risk valuation adjustments with respect

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to our various interest rate 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 interest rate swaps are quantified and further explained in note 4.

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 intangible assets related to customer relationships and cable television franchise rights, property and equipment and the implied value of goodwill. 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. The valuations of our customer relationships and cable television franchise rights intangible assets are each primarily based on an excess earnings methodology, which is a form of a discounted cash flow analysis. The excess earnings methodology requires us to estimate the specific cash flows expected from the respective customer relationship and cable television franchise rights intangible assets, considering such factors as estimated customer life, the revenue expected to be generated over the life of the customer or cable television franchise rights, contributory asset charges, and other factors. 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 the reporting unit 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. Our nonrecurring valuations use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy. During the nine months ended September 30, 2015, we performed nonrecurring valuations for the purpose of determining the acquisition accounting for the Choice Acquisition. The discount rates used to value the customer relationships and cable television franchise rights acquired as a result of this acquisition were approximately 11.75% and 12.25%, respectively.

(6) Long-lived Assets

Property and Equipment, Net

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

	September 30, 2015	December 31, 2014
	in millions	
Distribution systems	\$ 531.4	\$ 406.2
Support equipment, buildings and land	42.0	33.1
	573.4	439.3
Accumulated depreciation	(209.7)	(166.4)
Total property and equipment, net.....	\$ 363.7	\$ 272.9

During the nine months ended September 30, 2015 and 2014, we recorded changes in current liabilities related to capital expenditures of \$9.4 million and \$2.2 million, respectively.

Goodwill

The change in the carrying amount of our goodwill during the nine months ended September 30, 2015 is set forth below (in millions):

Balance at January 1, 2015	\$ 226.1
Acquisition	51.7
Balance at September 30, 2015	\$ 277.8

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Intangible Assets Subject to Amortization, Net

The details of our intangible assets subject to amortization are set forth below:

	September 30, 2015			December 31, 2014		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
	in millions					
Customer relationships.....	\$ 149.1	\$ (28.0)	\$ 121.1	\$ 90.0	\$ (19.3)	\$ 70.7
Other	0.1	(0.1)	—	0.5	(0.5)	—
Total intangible assets subject to amortization, net	\$ 149.2	\$ (28.1)	\$ 121.1	\$ 90.5	\$ (19.8)	\$ 70.7

(7) Debt and Capital Lease Obligations

Our debt and capital lease obligations are as follows:

	September 30, 2015					
	Weighted average interest rate (a)	Unused borrowing capacity (b)	Estimated fair value (c)		Carrying value (d)	
			September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
	in millions					
Third-party debt – Liberty Puerto Rico Bank Facility (e)	5.11%	\$ 40.0	\$ 920.1	\$ 666.2	\$ 933.5	\$ 672.0
Related-party debt – Shareholder Loan (f)	10.00%	—	(g)	(g)	16.0	14.5
Total debt.....	5.19%	\$ 40.0			949.5	686.5
Capital lease obligations.....					0.7	1.0
Total debt and capital lease obligations.....					950.2	687.5
Current maturities.....					(0.5)	(0.5)
Long-term debt and capital lease obligations.....					\$ 949.7	\$ 687.0

(a) Represents the weighted average interest rate in effect at September 30, 2015 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 deferred financing costs, original issue premiums or discounts and commitment fees, all of which affect our overall cost of borrowing. Including the effects of original issue discounts and commitment fees, but excluding the impact of financing costs, our weighted average interest rate on our aggregate third-party indebtedness was 5.1% at September 30, 2015. For information regarding our derivative instruments, see note 4.

(b) Unused borrowing capacity represents the maximum availability under our bank credit facility (the **Liberty Puerto Rico Bank Facility**) at September 30, 2015 without regard to covenant compliance calculations or other conditions precedent to borrowing. Based on the applicable leverage and other financial covenants, the full amount of unused borrowing capacity was available to be borrowed under the Liberty Puerto Rico Bank Facility at September 30, 2015. When the relevant September 30, 2015 compliance reporting requirements have been completed, and assuming no changes from the September 30, 2015 borrowing levels, we anticipate the full amount of the Liberty Puerto Rico Bank Facility will continue to be available to be borrowed.

(c) The estimated fair values of our debt instruments were determined using the average of applicable bid and ask prices (mostly Level 1 of the fair value hierarchy). For additional information concerning fair value hierarchies, see note 5.

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- (d) Amounts include the impacts of discounts, as applicable.
- (e) The Liberty Puerto Rico Bank Facility consists of (i) a first lien term loan with an original principal amount of \$530.0 million, (ii) a second lien term loan with an original principal amount of \$145.0 million and (iii) a \$40.0 million revolving credit facility. In June 2015, we increased the principal amount outstanding under the Liberty Puerto Rico Bank Facility by \$267.5 million (\$261.1 million carrying value after deducting the applicable discount). Substantially all of the net proceeds from this borrowing were used to fund a portion of the purchase price for the Choice Acquisition. For additional information regarding the Choice Acquisition, see note 3.
- (f) On December 31, 2012, we entered into a loan agreement with LiLAC Holdings (the **Shareholder Loan**). The Shareholder Loan is subordinate in right of payment to the Liberty Puerto Rico Bank Facility. On February 13, 2013, the Shareholder Loan was amended and restated, whereby certain of the Searchlight affiliates provided an irrevocable, absolute and unconditional guarantee to LiLAC Holdings for the repayment of the original advance under the Shareholder Loan, including accrued interest, limited to Searchlight's 40.0% pro rata portion. The Shareholder Loan currently bears interest at 10.0% per annum and is due and payable on either July 7, 2024 or the first anniversary of the latest maturity date of the loans under the Liberty Puerto Rico Bank Facility. Accrued and unpaid interest, if any, is added to the principal of the loan on January 1 of each year. As of September 30, 2015 and December 31, 2014, accrued and unpaid interest on the Shareholder Loan was \$1.2 million and \$1.5 million, respectively. The increase in the Shareholder Loan during 2015 includes a non-cash transfer of accrued interest of \$1.5 million.
- (g) The fair value is not subject to reasonable estimation due to the related-party nature of this loan.

Maturities of Debt and Capital Lease Obligations

Maturities of our debt and capital lease obligations as of September 30, 2015 are presented below:

Debt:

	<u>Third-party debt</u>	<u>Shareholder Loan</u>	<u>Total</u>
	<i>in millions</i>		
Years ending December 31:			
2015 (remainder of year) - 2020.....	\$ —	\$ —	\$ —
Thereafter	942.5	16.0	958.5
Total debt maturities.....	942.5	16.0	958.5
Unamortized discount.....	(9.0)	—	(9.0)
Total debt (a).....	<u>\$ 933.5</u>	<u>\$ 16.0</u>	<u>\$ 949.5</u>

- (a) Amounts are classified as non-current as of September 30, 2015.

Capital lease obligations (in millions):

Year ending December 31:		
2015 (remainder of year).....	\$	0.1
2016		0.4
2017		0.3
Total principal and interest payments		<u>0.8</u>
Amounts representing interest.....		(0.1)
Present value of net minimum lease payments	\$	<u>0.7</u>
Current portion.....	\$	<u>0.5</u>
Noncurrent portion.....	\$	<u>0.2</u>

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(8) Members' Capital

In accordance with our limited liability company agreement (the **LLC Agreement**), Priority Returns, as defined in the LLC Agreement, have been accrued and recorded quarterly as increases to the Class A Preferred Unit Member capital and decreases to the Class B Common Unit Member capital since November 8, 2012. Accrued Priority Returns will be reflected as a liability when and if declared. The cumulative amount of Priority Returns accrued through September 30, 2015 is \$33.7 million.

Liberty Puerto Rico issued 150 common shares to Cayman Holding in connection with the Choice Acquisition. For additional information, see note 3.

(9) Related-Party Transactions

Allocated share-based compensation expense. We recognized share-based compensation expense of \$0.4 million and nil during the three months ended September 30, 2015 and 2014, respectively, and \$0.9 million and \$0.2 million during the nine months ended September 30, 2015 and 2014, respectively. These amounts include share-based compensation of \$0.2 million and nil during the three months ended September 30, 2015 and 2014, respectively, and \$0.3 million and \$0.2 million during the nine months ended September 30, 2015 and 2014, respectively, that Liberty Global allocated to our company with respect to share-based incentive awards held by certain of our employees, which are reflected as an increase to members' capital. The remaining share-based compensation during the three and nine months ended September 30, 2015 relates to a liability-based plan that we implemented on January 1, 2015. Share-based compensation expense is included in SG&A in our condensed consolidated statements of operations.

Interest expense. We recognized related-party interest expense of \$0.2 million and \$0.3 million during the three months ended September 30, 2015 and 2014, respectively, and \$1.2 million and \$1.0 million during the nine months ended September 30, 2015 and 2014, respectively. These amounts represent interest on the Shareholder Loan. For additional information, see note 7.

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

	September 30, 2015	December 31, 2014
	in millions	
Assets:		
Other current assets (a)	\$ 1.0	\$ 0.9
Other assets, net (b)	3.6	2.4
Total assets	\$ 4.6	\$ 3.3
Liabilities:		
Accounts payable (c)	\$ 1.3	\$ 1.0
Debt (d)	16.0	14.5
Other long-term liabilities (e)	1.2	1.5
Total liabilities	\$ 18.5	\$ 17.0

(a) Represents various related-party receivables that may be cash or loan settled.

(b) Represents estimated income tax payments paid on behalf of Cayman Holding. Cayman Holding, which owns a 60.0% interest in Liberty Puerto Rico, is a pass-through entity for U.S. federal income tax purposes, but is treated as a corporation for income tax purposes in the Puerto Rico jurisdiction. On a quarterly basis, we make estimated tax payments on behalf of Cayman Holding. The resulting receivables are non-interest bearing and will be cash or loan settled at the discretion of Leo Cable LLC, the parent company of Cayman Holding.

(c) Represents various non-interest bearing related-party payables that may be cash or loan settled.

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- (d) Represents amounts outstanding on our Shareholder Loan. For additional information, see note 7.
- (e) Represents accrued and unpaid interest on our Shareholder Loan. For additional information, see note 7.

In June 2015, Cayman Holding issued a related-party loan receivable to us in connection with the Choice Acquisition (the **Cayman Holding Loan Receivable**). The Cayman Holding Loan Receivable bears interest at 5.45% and has a maturity date of June 10, 2025. For financial reporting purposes, we have presented the Cayman Holding Loan Receivable, and the related accrued interest and interest income, as a reduction of our members' capital. For additional information regarding the Choice Acquisition, see note 3.

During the nine months ended September 30, 2015, we recorded an aggregate capital charge of \$0.5 million in our condensed consolidated statement of changes in members' capital in connection with the exercise or vesting of Liberty Global share-based incentive awards held by certain of our employees. We and Liberty Global have agreed that these capital charges, which are generally cash settled, will be based on the fair value of the underlying Liberty Global shares associated with share-based incentive awards that vest or are exercised during the period.

(10) Restructuring Liabilities

A summary of changes in our restructuring liabilities during the nine months ended September 30, 2015 is set forth in the table below:

	<u>Employee severance and termination</u>	<u>Contract termination and other</u>	<u>Total</u>
	<u>in millions</u>		
Restructuring liability as of January 1, 2015 (a).....	\$ —	\$ 0.2	\$ 0.2
Restructuring charges (b).....	2.4	—	2.4
Choice liability at acquisition date	—	1.0	1.0
Cash paid	(2.4)	(1.0)	(3.4)
Restructuring liability as of September 30, 2015 (a)	<u>\$ —</u>	<u>\$ 0.2</u>	<u>\$ 0.2</u>

- (a) Our restructuring liabilities are included in other accrued and current liabilities in our condensed consolidated balance sheets.
- (b) Our restructuring charges during the nine months ended September 30, 2015 relate to certain reorganization and integration activities in connection with the Choice Acquisition.

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(11) Commitments and Contingencies

Commitments

In the normal course of business, we have entered into agreements that commit our company to make cash payments in future periods with respect to internet bandwidth commitments. As of September 30, 2015, such commitments are as follows:

	Payments due during:							Total
	Remainder of 2015	2016	2017	2018	2019	2020	Thereafter	
	in millions							
Total commitments (a).....	\$ 0.5	\$ 2.1	\$ 2.1	\$ 2.1	\$ 2.0	\$ 2.0	\$ 8.1	\$ 18.9

(a) The commitments included in this table do not reflect any liabilities that are included in our September 30, 2015 condensed consolidated balance sheet.

In addition to the commitments set forth in the table above, we have certain commitments under agreements with programming vendors, franchise authorities and municipalities pursuant to which we expect to make payments in future periods. While our programming commitments do not require that we pay any fixed minimum fees, we expect to make significant future payments under these contracts based on the actual number of subscribers to the programming services. In this regard, during the nine months ended September 30, 2015 and 2014, we incurred programming and copyright costs of \$70.4 million and \$60.8 million, respectively.

Commitments arising from acquisition agreements are not reflected in the above table.

Legal and Regulatory Proceedings and Other Contingencies

PRTC and Class Action Claims. Liberty Puerto Rico, as the surviving entity in the Puerto Rico Transaction, is a party to certain claims previously asserted by the incumbent telephone operator against OneLink based on alleged conduct of OneLink that occurred prior to the acquisition of OneLink (the **PRTC Claim**). The PRTC Claim includes an allegation that OneLink acted in an anticompetitive manner in connection with a series of legal and regulatory proceedings it initiated against the incumbent telephone operator in Puerto Rico beginning in 2009. In March 2014, a separate class action claim was filed in Puerto Rico (the **Class Action Claim**) containing allegations substantially similar to those asserted in the PRTC Claim, but alleging ongoing injury on behalf of a consumer class (as opposed to harm to a competitor). The former owners of OneLink have partially indemnified us through November 27, 2016 for any losses we may incur in connection with the PRTC Claim up to a specified maximum amount. However, the indemnity does not cover any potential losses resulting from the Class Action Claim. We have recorded a provision and a related indemnification asset representing our best estimate of the net loss we may incur upon the ultimate resolution of the PRTC Claim. While we expect that the net amount required to satisfy these contingencies will not materially differ from the estimated amount we have accrued, no assurance can be given that the ultimate resolution of these matters will not have an adverse impact on our results of operations, cash flows or financial position in any given period.

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

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

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a clear basis for predicting outcomes, we cannot provide a meaningful range of potential losses or cash outflows that might result from any unfavorable outcomes.

(12) Segment Reporting

We have one reportable segment that provides video, broadband internet and fixed-line telephony services to residential and/or business customers in Puerto Rico.

Our revenue by major category is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	in millions			
Cable subscription revenue (a):				
Video.....	\$ 46.7	\$ 37.5	\$ 127.7	\$ 112.3
Broadband internet	39.5	25.1	97.0	74.2
Fixed-line telephony.....	7.9	7.3	23.2	22.1
Total cable subscription revenue.....	94.1	69.9	247.9	208.6
Business-to-business (B2B) revenue (b).....	2.6	1.1	5.7	2.7
Other revenue (c)	7.8	5.3	20.5	16.3
Total.....	\$ 104.5	\$ 76.3	\$ 274.1	\$ 227.6

- (a) Cable subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees and late fees. Cable 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 products or the composition of bundles can contribute to changes in our product revenue categories from period to period.
- (b) B2B revenue includes revenue from business broadband internet, video, voice and data services offered to medium to large enterprises and, on a wholesale basis, to other operators. We also provide services to certain small office and home office (**SOHO**) subscribers. SOHO subscribers pay a premium price to receive expanded service levels along with video, broadband internet or fixed-line telephony services that are the same or similar to the mass marketed products offered to our residential subscribers. Revenue from SOHO subscribers, which is included in cable subscription revenue, aggregated \$5.9 million and \$4.3 million during the three months ended September 30, 2015 and 2014, respectively, and \$15.4 million and \$12.8 million during the nine months ended September 30, 2015 and 2014, respectively.
- (c) Other revenue includes, among other items, late fee, advertising and installation revenue.

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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 financial statements and the discussion and analysis included in our 2014 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 of the 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, 2015 and 2014.
- *Material Changes in Financial Condition.* This section provides an analysis of our liquidity and condensed consolidated statements of cash flows.

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

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 the economic environment in Puerto Rico, our business, product, and finance strategies, our property and equipment additions, subscriber growth and retention rates, competitive, regulatory and economic factors, the timing and impacts of proposed transactions, the anticipated impacts of new legislation (or changes to existing rules and regulations), anticipated changes in our revenue, costs or growth rates, our liquidity, credit risks 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 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 Puerto Rico, including any adverse impacts that may arise as a result of the high level of Puerto Rico's sovereign debt;
- the competitive environment in Puerto Rico, including competitor responses to our products and services;
- fluctuations in 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;
- the ultimate outcome of pending or threatened litigation, including the PRTC Claim and the Class Action Claim;
- changes in consumer television viewing preferences and habits;
- consumer acceptance of our existing service offerings, including our digital video, broadband internet, fixed-line telephony, 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 and fixed-line telephony 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 Puerto Rico and adverse outcomes from regulatory proceedings;
- government intervention that opens our broadband distribution network to competitors;
- our ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions and dispositions and the impact of conditions imposed by competition and other regulatory authorities in connection with acquisitions;
- our ability to successfully acquire new businesses and, if acquired, to integrate, realize anticipated efficiencies from, and implement our business plan with respect to, the businesses we have acquired or may acquire, such as the acquisition of Choice;
- changes in laws or treaties relating to taxation, or the interpretation thereof;
- changes in laws and government regulations that may impact the availability and cost of capital and the derivative instruments that hedge certain of our financial risks;
- the ability of suppliers and vendors to timely deliver quality products, equipment, software, services and access;
- the availability of attractive programming for our digital video services and the costs associated with such programming, including retransmission and copyright fees payable to public and private broadcasters;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- our ability to adequately forecast and plan future network requirements;
- the availability of capital for the acquisition and/or development of telecommunications networks and services;
- problems we may discover post-closing with the operations, including the internal controls and financial reporting process, of businesses we acquire;
- the leakage of sensitive customer data;
- the 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 and fixed-line telephony services in Puerto Rico. Liberty Puerto Rico was formed in connection with the Puerto Rico Transaction. LiLAC Holdings indirectly owns a 60.0% controlling interest in Liberty Puerto Rico, with the remaining 40.0% interest indirectly owned by Searchlight. LiLAC Holdings is a wholly-owned subsidiary of Liberty Global, an international provider of video, broadband internet, fixed-line telephony and mobile services.

We completed the Choice Acquisition on June 3, 2015, which impacts the comparability of our 2015 and 2014 results of operations. For further information regarding the Choice Acquisition, see note 3 to our condensed consolidated financial statements.

At September 30, 2015, we owned and operated a network that passed 1,068,200 homes and served 769,300 revenue generating units (RGUs), consisting of 313,500 broadband internet subscribers, 265,000 enhanced video subscribers and 190,800 telephony subscribers.

During the first quarter of 2015, we modified our video subscriber definition to better align the definition with the underlying services received by our subscribers and have replaced our “digital cable” subscriber definitions with “enhanced video”. An enhanced video subscriber receives our video service via a digital video signal while subscribing to any recurring monthly service that requires the use of encryption-enabling technology.

We added 6,200 and 15,500 RGUs on an organic basis during the three months ended September 30, 2015 and 2014, respectively. The organic RGU growth during the three months ended September 30, 2015 is attributable to the net effect of (i) an increase of 5,300 broadband internet RGUs, (ii) an increase of 3,700 fixed-line telephony RGUs and (iii) a decrease of 2,800 enhanced video RGUs.

Including the effects of the Choice Acquisition, we added a total of 178,400 RGUs during the nine months ended September 30, 2015. Excluding the effects of the Choice Acquisition (RGUs added on the acquisition date), but including post-acquisition date RGU additions, we added 22,500 RGUs on an organic basis during the nine months ended September 30, 2015, as compared to 41,600 RGUs added on an organic basis during the nine months ended September 30, 2014. The organic RGU growth during the nine months ended September 30, 2015 is attributable to the net effect of (i) an increase of 14,200 fixed-line telephony RGUs, (ii) an increase of 11,800 broadband internet RGUs and (iii) a decrease of 3,500 enhanced video RGUs.

We are facing a challenging economic environment in Puerto Rico. This environment could adversely impact our ability to increase, or in certain cases, maintain the revenue, RGUs, Adjusted Segment OIBDA (as defined and described below) and liquidity of our business, particularly if the economic environment were to weaken further. Additionally, concerns exist with respect to the Puerto Rico government’s cash flows and, accordingly, its ability to meet its debt obligations. For example, in the beginning of August 2015, it was reported that the Puerto Rico government failed to make a \$58 million bond payment. Before the payment default, the Puerto Rico government enacted a new tax law that, among other things, (i) increased the sales and use tax rate from 7% to 11.5%, effective July 1, 2015, and (ii) provided for the taxing of services between businesses at a rate of 4%, effective October 1, 2015. Prior to the new tax law, such services were exempt from taxation. Puerto Rico’s government is also currently contemplating austerity and a number of other measures to improve its solvency. It remains possible, if not likely, that Puerto Rico will be required to restructure its debt obligations to remain solvent. If the fiscal and economic conditions in Puerto Rico were to worsen as a result of these or other factors, the demand and ability of customers to pay for our services could be impaired, which, in turn, could have a negative impact on our results of operations, cash flows and financial condition.

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

Material Changes in Results of Operations

Revenue

We earn revenue from (i) subscribers to our broadband communications and (ii) B2B services, interconnect, channel carriage fees, installation fees, late fees and advertising. Consistent with the presentation of our revenue categories in note 12 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 and late fees.

Our revenue by major category is set forth below:

	Three months ended September 30,		Increase		Organic increase (decrease)
	2015	2014	\$	%	%
	in millions				
Cable subscription revenue (a):					
Video	\$ 46.7	\$ 37.5	\$ 9.2	24.5	3.2
Broadband internet	39.5	25.1	14.4	57.4	11.7
Fixed-line telephony.....	7.9	7.3	0.6	8.2	(2.2)
Total cable subscription revenue.....	94.1	69.9	24.2	34.6	5.7
B2B revenue (b).....	2.6	1.1	1.5	136.4	85.0
Other revenue (c).....	7.8	5.3	2.5	47.2	13.2
Total	\$ 104.5	\$ 76.3	\$ 28.2	37.0	7.4

	Nine months ended September 30,		Increase		Organic increase
	2015	2014	\$	%	%
	in millions				
Cable subscription revenue (a):					
Video	\$ 127.7	\$ 112.3	\$ 15.4	13.7	4.2
Broadband internet	97.0	74.2	22.8	30.7	10.1
Fixed-line telephony.....	23.2	22.1	1.1	5.0	0.4
Total cable subscription revenue.....	247.9	208.6	39.3	18.8	5.9
B2B revenue (b).....	5.7	2.7	3.0	111.1	83.3
Other revenue (c).....	20.5	16.3	4.2	25.8	12.0
Total	\$ 274.1	\$ 227.6	\$ 46.5	20.4	7.3

- (a) Cable subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees, late fees and advertising revenue. Cable 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 products or the composition of bundles can contribute to changes in our product revenue categories from period to period.

- (b) B2B revenue includes revenue from business broadband internet, video, voice and data services offered to medium to large enterprises and, on a wholesale basis, to other operators. We also provide services to certain SOHO subscribers. SOHO subscribers pay a premium price to receive expanded service levels along with video, broadband internet or fixed-line telephony services that are the same or similar to the mass marketed products offered to our residential subscribers. Revenue from SOHO subscribers, which is included in cable subscription revenue, aggregated \$5.9 million and \$4.3 million during the three months ended September 30, 2015 and 2014, respectively, and \$15.4 million and \$12.8 million during the nine months ended September 30, 2015 and 2014, respectively. On an organic basis, our total B2B revenue, including revenue from SOHO subscribers, increased 24.3% and 20.7% for the three and nine months ended September 30, 2015, respectively, as compared to the corresponding prior year periods.
- (c) Other revenue includes, among other items, late fee, advertising and installation revenue.

The details of our revenue increases during the three and nine months ended September 30, 2015, as compared to the corresponding periods in 2014, include (i) organic increases of \$5.6 million or 7.4% and \$16.5 million or 7.3%, respectively, and (ii) the impact of the Choice Acquisition, as set forth below:

	Three-month period			Nine-month period		
	Subscription revenue	Non-subscription revenue	Total	Subscription revenue	Non-subscription revenue	Total
	in millions					
Increase (decrease) in cable subscription revenue due to change in:						
Average number of RGUs (a)	\$ 4.8	\$ —	\$ 4.8	\$ 16.9	\$ —	\$ 16.9
Average monthly subscription revenue per average RGU (ARPU) (b)	(0.9)	—	(0.9)	(4.6)	—	(4.6)
Total increase in cable subscription revenue	3.9	—	3.9	12.3	—	12.3
Increase in B2B revenue	—	1.0	1.0	—	2.3	2.3
Increase in other non-subscription revenue ...	—	0.7	0.7	—	1.9	1.9
Total organic increase	3.9	1.7	5.6	12.3	4.2	16.5
Impact of the Choice Acquisition	20.3	2.3	22.6	27.0	3.0	30.0
Total	\$ 24.2	\$ 4.0	\$ 28.2	\$ 39.3	\$ 7.2	\$ 46.5

- (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 fixed-line telephony, broadband internet and enhanced video RGUs.
- (b) The decreases in cable subscription revenue related to changes in ARPU are due to adverse changes in RGU mix. Excluding the impact of RGU mix, ARPU was relatively unchanged as the positive impacts of price increases in March 2015 for digital video and broadband internet services were offset by the adverse impacts of higher bundling discounts.

Operating expenses

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

Our total operating expenses increased \$11.3 million or 33.2% and \$19.2 million or 18.9% during the three and nine months ended September 30, 2015, respectively, as compared to the corresponding periods in 2014. These increases include increases of \$10.0 million and \$13.4 million, respectively, attributable to the impact of the Choice Acquisition. Excluding the effect of the Choice Acquisition, our operating expenses increased \$1.3 million or 3.7% and \$5.8 million or 5.7%, respectively. These increases include the following factors:

- Increases in programming and copyright costs of \$0.3 million or 1.3% and \$2.7 million or 4.5%, respectively, primarily due to increased costs for certain content and growth in the numbers of enhanced video subscribers;
- Increases in access costs of \$0.4 million or 21.8% and \$1.4 million or 24.2%, respectively, primarily due to increased costs related to additional capacity agreements with third-party internet providers; and
- Increases in bad debt and collection costs of \$0.7 million or 29.5% and \$1.0 million or 12.6%, respectively.

SG&A expenses

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

Our total SG&A expenses (exclusive of share-based compensation expense) increased \$3.2 million or 33.3% and \$2.0 million or 6.5% during the three and nine months ended September 30, 2015, respectively, as compared to the corresponding periods in 2014. These increases include increases of \$3.3 million and \$4.4 million, respectively, attributable to the impact of the Choice Acquisition. Excluding the effect of the Choice Acquisition, our SG&A expenses decreased \$0.1 million or 1.3% and \$2.4 million or 7.9%, respectively. These decreases include the following factors:

- Increases in personnel costs of \$0.5 million or 13.1% and \$2.0 million or 18.0%, respectively, largely due to annual wage increases;
- A decrease during the nine-month comparison in outsourced labor and professional fees of \$1.8 million or 50.3%, primarily due to lower fees associated with legal proceedings; and
- Decreases of \$0.4 million and \$1.1 million, respectively, due to lower costs associated with the national gross receipts tax that was implemented in Puerto Rico in July 2014. In 2015, it was determined that the tax would not be continued beyond 2014.

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

We recognized share-based compensation expense of \$0.4 million and nil during the three months ended September 30, 2015 and 2014, respectively, and \$0.9 million and \$0.2 million during the nine months ended September 30, 2015 and 2014, respectively.

Depreciation and amortization expense

Our depreciation and amortization expense increased \$5.5 million or 36.2% and \$9.7 million or 22.1% during the three and nine months ended September 30, 2015, respectively, as compared to the corresponding periods in 2014. These increases are primarily attributable to the net effect of (i) increases due to the impact of the Choice Acquisition, (ii) increases associated with property and equipment additions related to the expansion and upgrade of our network, the installation of customer premises equipment and other capital initiatives and (iii) decreases associated with certain assets becoming fully depreciated.

Impairment, restructuring and other operating items, net

We recognized impairment, restructuring and other operating items, net, of \$0.2 million and \$1.5 million during the three months ended September 30, 2015 and 2014, respectively, and \$7.0 million and \$2.0 million during the nine months ended September 30, 2015 and 2014, respectively. The charges during the 2015 periods are primarily attributable to (i) direct acquisition costs of \$0.3 million and \$4.6 million during the three and nine months ended September 30, 2015, respectively, related to the Choice Acquisition and (ii) restructuring charges of nil and \$2.4 million during the three and nine months ended September 30,

2015, respectively, related to employee severance and termination costs associated with certain reorganization and integration activities. The charges during the 2014 periods are primarily attributable to direct acquisition costs related to the Choice Acquisition.

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, cable television franchise rights 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 \$3.6 million during each of the three and nine months ended September 30, 2015, as compared to the corresponding periods in 2014. The increases during the three and nine month periods are primarily due to a higher average outstanding debt balance resulting from the Choice Acquisition.

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

Interest expense – related-party

Our related-party interest expense of \$0.2 million and \$1.2 million during the three and nine months ended September 30, 2015, respectively, remained relatively unchanged, as compared to the corresponding 2014 periods. For additional information regarding our related-party debt, see note 7 to our condensed consolidated financial statements.

Realized and unrealized losses on derivative instruments, net

Our realized and unrealized gains or losses on derivative instruments include 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.

During the second quarter of 2015, we entered into interest rate derivative contracts. Our realized and unrealized losses on derivative instruments, net, were \$16.3 million and \$19.3 million during the three and nine months ended September 30, 2015, respectively, primarily due to decreases in market interest rates in the U.S. dollar market. In addition, the losses during the 2015 periods include net gains of \$1.6 million and \$1.1 million during the three and nine months ended September 30, 2015, respectively, resulting from changes in our credit risk valuation adjustments.

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

Net earnings (loss)

During the three months ended September 30, 2015 and 2014, we reported net losses of \$4.8 million and \$3.4 million, respectively, including (i) operating income of \$25.1 million and \$16.0 million, respectively, and (ii) non-operating expense of \$29.9 million and \$19.4 million, respectively.

During the nine months ended September 30, 2015 and 2014, we reported net earnings of \$1.9 million and \$5.8 million, respectively, including (i) operating income of \$59.3 million and \$49.4 million, respectively, and (ii) non-operating expense of \$57.4 million and \$43.6 million, respectively.

Gains or losses associated with (i) changes in the fair values of derivative instruments and (ii) 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 from operations is largely dependent on our ability to increase our aggregate Adjusted Segment OIBDA to a level that more than offsets the aggregate amount of our (a) share-based compensation expense, (b) depreciation and amortization, (c) impairment, restructuring and other operating items, net, (d) interest expense and (e) other net non-operating expenses.

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

Material Changes in Financial Condition

Sources and Uses of Cash

We had \$51.4 million of cash at September 30, 2015. In addition to our existing cash, the primary sources of our liquidity are cash provided by operations and borrowings available under the Liberty Puerto Rico Bank Facility. From time to time, our members may also agree to provide funding to us in the form of subordinated loans or equity contributions.

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

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

Capitalization

For the quarter ended September 30, 2015, (i) our First Lien Leverage ratio was 3.64x and (ii) our Total Leverage ratio was 4.55x, each as defined in, and calculated in accordance with, the Liberty Puerto Rico Bank Facility.

At September 30, 2015, our outstanding third-party debt and capital lease obligations aggregated \$934.2 million, including \$0.5 million that is classified as current in our condensed consolidated balance sheet and \$933.5 million that is due in 2022 or thereafter. For additional information concerning our current debt maturities, see note 7 to our condensed consolidated financial statements.

Our ability to generate cash from our operations will depend on our future operating performance, which is in turn dependent, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control. We believe that our cash, the cash provided from our operations and any available borrowings under the Liberty Puerto Rico Bank Facility will be sufficient to fund our currently anticipated working capital needs, property and equipment additions and debt service requirements during the next 12 months, although no assurance can be given that this will be the case. For additional information regarding available borrowings under the Liberty Puerto Rico Bank Facility, see note 7 to our condensed consolidated financial statements. In addition, under certain circumstances, it is possible that LiLAC Holdings would increase the amount loaned to our company pursuant to the Shareholder Loan or a similar arrangement. No assurance can be given that our members would agree to loan additional amounts to our company on a subordinated basis. As our debt matures, 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 and/or any adverse regulatory developments could impact the credit markets we access and accordingly, our future liquidity and financial position. 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.

Our ability to service or refinance our debt and to maintain compliance with our leverage covenants is dependent primarily on our ability to maintain or increase our Adjusted Segment OIBDA 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 leverage covenants contained in our credit agreements. In this regard, if our Adjusted Segment OIBDA were to decline, we could be required to repay or limit our borrowings under the Liberty Puerto Rico Bank Facility 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.

Condensed Consolidated Statements of Cash Flows

Summary. Our condensed consolidated statements of cash flows for the nine months ended September 30, 2015 and 2014 are summarized as follows:

	<u>Nine months ended September 30,</u>		<u>Change</u>
	<u>2015</u>	<u>2014</u>	
	in millions		
Net cash provided by operating activities	\$ 74.0	\$ 55.8	\$ 18.2
Net cash used by investing activities	(42.7)	(48.2)	5.5
Net cash used by financing activities	(1.8)	(5.6)	3.8
Net increase in cash	<u>\$ 29.5</u>	<u>\$ 2.0</u>	<u>\$ 27.5</u>

Operating activities. The increase in net cash provided by our operating activities is primarily due to the net impact of (i) an increase in the cash provided by our Adjusted Segment OIBDA and related working capital items, a significant portion of which is due to the impact of the Choice Acquisition, and (ii) a decrease in cash provided due to higher cash payments for interest.

Investing activities. The decrease in cash used by our investing activities is primarily due to cash acquired related to the Choice Acquisition.

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

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

	<u>Nine months ended September 30,</u>	
	<u>2015</u>	<u>2014</u>
	in millions	
Property and equipment additions	\$ 55.7	\$ 50.4
Changes in current liabilities related to capital expenditures	(9.4)	(2.2)
Capital expenditures	<u>\$ 46.3</u>	<u>\$ 48.2</u>

The increase in property and equipment additions is primarily attributable to the net effect of (i) an increase due to the impact of the Choice Acquisition, (ii) a decrease in expenditures for new build and upgrade projects to expand services, (iii) an increase in expenditures for the purchase and installation of customer premises equipment and (iv) a decrease in expenditures for support capital, such as information technology upgrades and general support systems.

Financing activities. The decrease in net cash used by our financing activities is primarily due to the net impact of (i) a decrease in cash used of \$11.6 million due to lower payments for financing costs and (ii) an increase in cash used of \$7.9 million due to lower net borrowings of third-party debt.

Commitments and Contingencies

For information regarding our commitments and contingencies, see note 11 to our condensed consolidated financial statements.

Projected Cash Flows Associated with Derivative Instruments

The following table provides information regarding the projected cash flows associated with our derivative instruments. The amounts presented below are based on interest rates that were in effect as of September 30, 2015. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. For additional information regarding our derivative instruments, see note 4 to our condensed consolidated financial statements.

	Payments due during:							Total
	Remainder of 2015	2016	2017	2018	2019	2020	Thereafter	
	in millions							
Projected derivative cash payments, net:								
Interest-related (a)	\$ —	\$ —	\$ 14.3	\$ 14.3	\$ 12.1	\$ 11.4	\$ 13.9	\$ 66.0

(a) Includes the interest-related cash flows of our interest rate swap contracts.