



**LIBERTY CABLEVISION
OF PUERTO RICO LLC**

**Condensed Consolidated Financial Statements
September 30, 2016**

LIBERTY CABLEVISION OF PUERTO RICO LLC

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San Juan, Puerto Rico
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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, 2016	December 31, 2015
	in millions	
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 50.6	\$ 65.7
Trade receivables and unbilled revenue, net.....	17.1	19.0
Prepaid expenses.....	7.5	4.6
Other current assets (note 9).....	2.1	16.3
Total current assets.....	77.3	105.6
Property and equipment, net (note 6).....	382.1	368.7
Goodwill.....	277.7	277.7
Cable television franchise rights.....	584.1	584.1
Customer relationships, net (note 6).....	106.2	117.3
Other assets, net (notes 4, 8 and 9).....	16.9	19.0
Total assets.....	\$ 1,444.3	\$ 1,472.4

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

LIBERTY CABLEVISION OF PUERTO RICO LLC
CONDENSED CONSOLIDATED BALANCE SHEETS — (Continued)
(unaudited)

	September 30, 2016	December 31, 2015
	in millions	
LIABILITIES AND MEMBERS' CAPITAL		
Current liabilities:		
Accounts payable (note 9).....	\$ 18.0	\$ 15.6
Accrued capital expenditures	12.8	8.1
Deferred revenue and advance payments from subscribers	12.1	13.2
Third-party accrued interest	10.9	10.7
Derivative instruments (note 4).....	7.3	—
Current portion of debt and capital lease obligations (note 7).....	0.2	0.5
Other accrued and current liabilities	21.7	47.0
Total current liabilities.....	83.0	95.1
Long-term debt and capital lease obligations (note 7):		
Third-party	926.7	925.0
Related-party (note 9)	—	16.0
Other long-term liabilities (notes 4 and 9)	30.0	17.5
Total liabilities	1,039.7	1,053.6
Commitments and contingencies (notes 4, 8, and 10)		
Members' capital:		
Members' capital (notes 3, 8 and 9).....	472.6	486.8
Cayman Holding Loan Receivable (note 9).....	(68.0)	(68.0)
Members' capital after deducting loan receivable from member	404.6	418.8
Total liabilities and members' capital.....	\$ 1,444.3	\$ 1,472.4

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,	
	2016	2015	2016	2015
	in millions			
Revenue (note 11)	\$ 104.8	\$ 104.5	\$ 315.6	\$ 274.1
Operating costs and expenses:				
Operating (other than depreciation and amortization).....	42.4	45.3	130.7	120.6
Selling, general and administrative (SG&A) (including share-based compensation) (notes 9 and 10)	7.2	13.2	34.2	33.7
Depreciation and amortization.....	20.9	20.7	62.8	53.5
Impairment, restructuring and other operating items, net (note 3).....	0.1	0.2	1.2	7.0
	<u>70.6</u>	<u>79.4</u>	<u>228.9</u>	<u>214.8</u>
Operating income	<u>34.2</u>	<u>25.1</u>	<u>86.7</u>	<u>59.3</u>
Non-operating income (expense):				
Interest expense:				
Third-party	(12.9)	(13.2)	(38.6)	(36.7)
Related-party (note 9).....	—	(0.2)	(0.6)	(1.2)
Realized and unrealized gains (losses) on derivative instruments, net (note 4) ...	4.3	(16.3)	(23.9)	(19.3)
Other expense, net	(0.1)	(0.2)	(0.1)	(0.2)
	<u>(8.7)</u>	<u>(29.9)</u>	<u>(63.2)</u>	<u>(57.4)</u>
Net earnings (loss)	<u>\$ 25.5</u>	<u>\$ (4.8)</u>	<u>\$ 23.5</u>	<u>\$ 1.9</u>

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, 2016	\$ 257.2	\$ 229.6	\$ 486.8	\$ (68.0)	\$ 418.8
Net earnings.....	—	23.5	23.5	—	23.5
Priority Return (note 8)	10.9	(10.9)	—	—	—
Cash and non-cash distributions to members (notes 8 and 9)	(33.9)	(3.7)	(37.6)	—	(37.6)
Other, net (note 9).....	—	(0.1)	(0.1)	—	(0.1)
Balance at September 30, 2016.....	<u>\$ 234.2</u>	<u>\$ 238.4</u>	<u>\$ 472.6</u>	<u>\$ (68.0)</u>	<u>\$ 404.6</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,	
	2016	2015
	in millions	
Cash flows from operating activities:		
Net earnings	\$ 23.5	\$ 1.9
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Share-based compensation expense	2.2	0.9
Depreciation and amortization	62.8	53.5
Impairment, restructuring and other operating items, net	1.2	7.0
Amortization of deferred financing costs and non-cash interest accretion	1.8	1.3
Realized and unrealized losses on derivative instruments, net	23.9	19.3
Changes in operating assets and liabilities	(13.4)	(9.9)
Net cash provided by operating activities	<u>102.0</u>	<u>74.0</u>
Cash flows from investing activities:		
Capital expenditures	(69.5)	(46.3)
Cash acquired related to the Choice Acquisition.....	—	3.6
Net cash used by investing activities	<u>(69.5)</u>	<u>(42.7)</u>
Cash flows from financing activities:		
Distributions to members.....	(33.5)	—
Repayment of the Shareholder Loan	(13.3)	—
Repayments of third-party debt and capital lease obligations	(0.3)	(0.4)
Payment of financing costs	—	(1.3)
Other financing activities.....	(0.5)	(0.1)
Net cash used by financing activities	<u>(47.6)</u>	<u>(1.8)</u>
Net increase (decrease) in cash	(15.1)	29.5
Cash:		
Beginning of period	65.7	21.9
End of period.....	<u>\$ 50.6</u>	<u>\$ 51.4</u>
Cash paid for interest – third-party	<u>\$ 36.6</u>	<u>\$ 32.5</u>
Cash paid for interest – related-party	<u>\$ 3.5</u>	<u>\$ —</u>
Cash paid for taxes (note 9)	<u>\$ 1.4</u>	<u>\$ —</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, 2016
(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 included 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 to 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 (**U.S. GAAP**) for interim financial information. Accordingly, these financial statements do not include all of the information required by U.S. GAAP for complete financial statements. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the results of operations for the interim periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2015 annual report.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates and assumptions are used in accounting for, among other things, the valuation of acquisition-related assets and liabilities, allowances for uncollectible accounts, programming and copyright costs, 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, including the reclassification of deferred financing costs from other assets, net, to long-term debt and capital lease obligations. For additional information regarding the change in the classification of deferred financing costs, see “*Accounting Changes*” in note 2.

These condensed consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through November 18, 2016, the date of issuance.

(2) Accounting Changes and Recent Accounting Pronouncements

Accounting Changes

In April 2015, the Financial Accounting Standards Board (**FASB**) issued Accounting Standards Update (**ASU**) No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (**ASU 2015-03**), which requires debt issuance costs related to a recognized debt liability to be presented on the balance sheet as a direct deduction from the debt liability, similar to the presentation of debt discounts. ASU 2015-03 is effective for annual reporting periods beginning after December 15, 2015. We adopted ASU 2015-03 on January 1, 2016 and, accordingly, deferred financing costs are presented as a reduction of debt in our September 30, 2016 and December 31, 2015 condensed consolidated balance sheets. Prior to the adoption of ASU 2015-03, we presented deferred financing costs in other assets, net.

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Notes to Condensed Consolidated Financial Statements — (Continued)
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Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (ASU 2014-09)*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09, as amended by ASU No. 2015-14, will replace existing revenue recognition guidance when it becomes effective for annual reporting periods beginning after December 15, 2018. Early application is permitted for annual and interim reporting periods that begin after December 15, 2016. This new standard permits the use of either the retrospective or cumulative effect transition method. We will adopt ASU 2014-09 effective January 1, 2018, using the cumulative effect transition method. We are currently evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (ASU 2016-02)*, which, for most leases, will result in lessees recognizing lease assets and lease liabilities on the balance sheet with additional disclosures about leasing arrangements. ASU 2016-02 requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach also includes a number of optional practical expedients an entity may elect to apply. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. We intend to adopt ASU 2016-02 effective January 1, 2019, and we are currently evaluating the effect that ASU 2016-02 will have on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation — Stock Compensation, Improvements to Employee Share-Based Payment Accounting (ASU 2016-09)*, which simplifies several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities and classification within the statement of cash flows. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. We intend to adopt ASU 2016-09 effective January 1, 2017 and do not expect this adoption to have a material impact on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments — Credit Losses (ASU 2016-13)*, which changes the way entities measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net earnings. ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2020, with early adoption permitted. We intend to adopt ASU 2016-13 effective January 1, 2020, and we are currently evaluating the effect that ASU 2016-13 will have on our consolidated financial statements and related disclosures.

(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 (\$259.1 million after deducting the applicable discount and fees) on the Liberty Puerto Rico Bank Facility, as defined in note 7, 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.

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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 opening balance sheet of Choice at the June 3, 2015 acquisition date is presented in the following table. The opening balance sheet presented below reflects our final purchase price allocation (in millions):

Cash and cash equivalents	\$	3.6
Other current assets		7.8
Property and equipment, net.....		79.8
Goodwill (a)		51.6
Cable television franchise rights		147.8
Customer relationships, net (b)		59.1
Other assets, net.....		0.3
Other accrued and current liabilities		(13.2)
Non-current deferred tax liabilities (c).....		(60.4)
Total purchase price (d)		<u>276.4</u>
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)		60.4
Impact of the Choice Acquisition.....		<u>404.8</u>
Non-cash borrowing and distribution to Cayman Holding		(259.1)
Increase to members' capital related to the Choice Acquisition.....	\$	<u><u>145.7</u></u>

-
- (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) synergies that are expected to be achieved through the integration of Choice with Liberty Puerto Rico.
- (b) Amount 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.
- (d) Excludes cumulative direct acquisition costs of \$8.5 million incurred through December 31, 2015, which were included in impairment, restructuring and other operating items, net, in our consolidated statement of operations for the year ended December 31, 2015.

LIBERTY CABLEVISION OF PUERTO RICO LLC
Notes to Condensed Consolidated Financial Statements — (Continued)
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Pro Forma Information

The following unaudited pro forma condensed consolidated operating results for the nine months ended September 30, 2015 give effect to the Choice Acquisition as if it had been completed as of January 1, 2015 (in millions). 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.

Revenue	\$	311.2
Net earnings	\$	3.8

(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 assets and liabilities:

	September 30, 2016			December 31, 2015		
	Current	Long-term (a)	Total	Current	Long-term (a)	Total
	in millions					
Assets:						
Interest rate derivative contracts (b)...	\$ —	\$ 1.8	\$ 1.8	\$ —	\$ —	\$ —
Liabilities:						
Interest rate derivative contracts (b)...	\$ 7.3	\$ 28.4	\$ 35.7	\$ —	\$ 13.8	\$ 13.8

- (a) Our long-term derivative assets are included in other assets, net, and our long-term derivative liabilities are included in other long-term liabilities in our condensed consolidated balance sheets.
- (b) We consider credit risk in our fair value assessments. As of September 30, 2016 and December 31, 2015, (i) the fair values of our interest rate derivative contracts that represented assets have been reduced by credit risk valuation adjustments aggregating \$0.1 million and nil, respectively, and (ii) the fair values of our interest rate derivative contracts that represented liabilities have been reduced by credit risk valuation adjustments aggregating \$2.0 million and \$0.5 million, 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 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 a net gain (loss) of (\$0.3 million) and \$1.6 million during the three months ended September 30, 2016 and 2015, respectively, and net gains of \$1.4 million and \$1.1 million during the nine months ended September 30, 2016 and 2015, respectively. These amounts are included in realized and unrealized gains (losses) on derivative instruments, net, in our condensed consolidated statements of operations. For further information regarding our fair value measurements, see note 5.

LIBERTY CABLEVISION OF PUERTO RICO LLC
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		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
	in millions			
Interest rate derivative contracts	\$ 4.3	\$ (16.3)	\$ (23.9)	\$ (19.3)

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. The classification of these net cash outflows is as follows:

	Nine months ended	
	September 30,	
	2016	2015
	in millions	
Operating activities	\$ (3.7)	\$ —

Counterparty Credit Risk

We are exposed to the risk that the counterparty to our derivative instruments will default on its obligations to us. We manage this credit risk through the evaluation and monitoring of the creditworthiness of our counterparty. Collateral is generally not posted by either party under our derivative instruments. At September 30, 2016, our exposure to counterparty credit risk included derivative assets with an aggregate fair value of \$1.8 million.

Details of our Derivative Instruments

In the following tables, we present the details of the various categories of our derivative instruments. The notional amounts of multiple derivative instruments that mature within the same calendar month are shown in the aggregate and interest rates are presented on a weighted average basis. For derivative instruments that become effective subsequent to September 30, 2016, 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, 2016 are as follows:

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

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Notes to Condensed Consolidated Financial Statements — (Continued)
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Interest Rate Caps

Our purchased interest rate cap contracts with respect to LIBOR at September 30, 2016 are detailed below:

<u>Final maturity date (a)</u>	<u>Notional amount</u> <u>in millions</u>	<u>Cap rate</u>
October 2016 - January 2022.....	\$ 258.8	3.50%
January 2019 - July 2023	\$ 177.5	3.50%

(a) These purchased interest rate caps entitle us to receive payments from the counterparty when the relevant LIBOR exceeds the LIBOR cap rate during the specified observation periods.

(5) Fair Value Measurements

We use the fair value method to account for our derivative instruments. The reported fair values of these instruments as of September 30, 2016 likely will not represent the value that will be paid or received upon the ultimate settlement or disposition of these assets and 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.

U.S. GAAP provides for a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. We record transfers of assets or liabilities into or out of Levels 1, 2 or 3 at the beginning of the quarter during which the transfer occurred. During the nine months ended September 30, 2016, no such transfers were made.

In order to manage our interest rate risk, we have entered into various derivative instruments, as further described in note 4. The recurring fair value measurements of these instruments are determined using discounted cash flow models. Most of the inputs to these discounted cash flow models consist of, or are derived from, observable Level 2 data for substantially the full term of these instruments. This observable data includes most interest rate futures and swap rates, which are retrieved or derived from available market data. Although we may extrapolate or interpolate this data, we do not otherwise alter this data in performing our valuations. We incorporate a credit risk valuation adjustment in our fair value measurements to estimate the impact of both our own nonperformance risk and the nonperformance risk of our counterparty. Our and our counterparties' credit spreads represent our most significant Level 3 inputs, and these inputs are used to derive the credit risk valuation adjustments with respect to these instruments. As we would not expect changes in our or our counterparties' credit spreads to have a significant impact on the valuations of these instruments, we have determined that these valuations fall under Level 2 of the fair value hierarchy. Our credit risk valuation adjustments with respect to our 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 cable television franchise rights and customer relationships, 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 cable television franchise rights and customer relationship 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 cable television franchise rights and customer relationship intangible assets, considering such factors as estimated customer life, the revenue expected to be generated over the life of the cable television franchise rights or the customer relationship, 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,

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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, 2016, we did not perform any nonrecurring fair value measurements.

(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, 2016	December 31, 2015
	in millions	
Distribution systems	\$ 606.6	\$ 549.4
Support equipment, buildings and land	50.2	45.4
	<u>656.8</u>	<u>594.8</u>
Accumulated depreciation	(274.7)	(226.1)
Total property and equipment, net.....	<u>\$ 382.1</u>	<u>\$ 368.7</u>

During the nine months ended September 30, 2016 and 2015, we recorded an increase (decrease) in current liabilities related to capital expenditures of \$4.4 million and (\$9.4 million), respectively.

Customer Relationships, Net

The details of our customer relationships are set forth below:

	September 30, 2016	December 31, 2015
	in millions	
Gross carrying amount	\$ 149.1	\$ 149.1
Accumulated amortization	(42.9)	(31.8)
Total customer relationships, net.....	<u>\$ 106.2</u>	<u>\$ 117.3</u>

(7) Debt and Capital Lease Obligations

Our third-party debt obligations are as follows:

	September 30, 2016					
	Weighted average interest rate (a)	Unused borrowing capacity (b)	Estimated fair value (c)		Principal amount	
			September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
			in millions			
Third-party debt before unamortized discounts and deferred financing costs (d)	5.11%	\$ 40.0	\$ 924.9	\$ 913.0	\$ 942.5	\$ 942.5

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Notes to Condensed Consolidated Financial Statements — (Continued)
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(unaudited)

The following table provides a reconciliation of third-party debt before unamortized discounts and deferred financing costs to total debt and capital lease obligations:

	September 30, 2016	December 31, 2015
	in millions	
Third-party debt before unamortized discounts and deferred financing costs	\$ 942.5	\$ 942.5
Unamortized discounts	(7.7)	(8.6)
Unamortized deferred financing costs	(8.1)	(9.0)
Total carrying amount of third-party debt	<u>926.7</u>	<u>924.9</u>
Capital lease obligations	0.2	0.6
Total third-party debt and capital lease obligations	<u>926.9</u>	<u>925.5</u>
Related-party debt (note 9)	—	16.0
Total debt and capital lease obligations	<u>926.9</u>	<u>941.5</u>
Current maturities of debt and capital lease obligations	(0.2)	(0.5)
Long-term debt and capital lease obligations	<u>\$ 926.7</u>	<u>\$ 941.0</u>

- (a) Represents the weighted average interest rate in effect at September 30, 2016 for all borrowings outstanding pursuant to each debt instrument, including any applicable margin. The interest rate presented represents the stated rate and does not include the impact of deferred financing costs, original issue premiums or discounts and commitment fees, all of which affect our overall cost of borrowing. Including the effects of derivative instruments, original issue discounts and commitment fees, but excluding the impact of financing costs, our weighted average interest rate on our aggregate indebtedness was 5.1% at September 30, 2016. For information regarding our derivative instruments, see note 4.
- (b) Unused borrowing capacity represents the maximum availability under the Liberty Puerto Rico Bank Facility, as described below, at September 30, 2016 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, 2016. When the relevant September 30, 2016 compliance reporting requirements have been completed, and assuming no changes from the September 30, 2016 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.
- (d) Represents the Liberty Puerto Rico Bank Facility, which consists of (i) a first lien term loan with a principal amount of \$765.0 million, (ii) a second lien term loan with a principal amount of \$177.5 million and (iii) a \$40.0 million revolving credit facility.

Maturities of Debt

As of September 30, 2016, all of our debt matures in January 2022 and thereafter.

(8) Members' Capital

We have two members, a Class A Preferred Unit Member (**Class A Preferred Member**) and a Class B Common Unit Member (**Class B Common Member**). Our limited liability company agreement (the **LLC Agreement**) requires any distribution to our members be made in the following order of priority: first, to the Class A Preferred Member, the amount of the aggregate accrued and unpaid Priority Return (as defined in the LLC Agreement); second, to the Class B Common Member until such Class B Common Member's capital account has been reduced to the amount of the Class B Common Member's capital contributions; third, to the members in respect of their units on a pro rata basis, subject to certain limitations; and fourth, the balance, if any, to the Class B Common Member. In addition, we periodically pay taxes on behalf of our members, which are recorded as distributions

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to the capital account of the Class A Preferred Member and Class B Common Member in our consolidated statements of changes in members' capital, as applicable. During 2016, we reclassified taxes paid on behalf of our members prior to 2016 from other assets, net to members' capital and reflected as non-cash distributions to members in our condensed consolidated statement of changes in members' capital. For additional information, see note 9.

We allocate profits and losses to our members as follows: (i) profits shall be allocated in the following order: (a) first, to our Class A Preferred Member in an amount equal to the excess, if any, of (1) the cumulative Priority Returns from the date of issuance of the Class A preferred units, as specified in the LLC Agreement, over (2) the sum of all profits to be allocated to the Class A Preferred Member and (b) second, all remaining profits shall be allocated to the Class B Common Member and (ii) all losses shall be allocated to the Class B Common Member.

In accordance with and as defined in our LLC Agreement, Priority Returns have been accrued and recorded quarterly as increases to the Class A Preferred Member capital and decreases to the Class B Common Member capital since November 8, 2012. Accrued Priority Returns will be reflected as a liability when and if declared and reflected as a reduction to Class A Preferred Member capital in our consolidated statements of changes in members' capital when paid. During the third quarter of 2016, we declared and paid a \$30.0 million distribution to our Class A Preferred Member. Additionally, during the second quarter of 2016, we paid taxes aggregating \$3.5 million on behalf of our Class A Preferred Member. In accordance with the terms of the LLC Agreement, we have reflected these payments as distributions to members in our condensed consolidated statements of cash flows and changes in members' capital. The cumulative amount of unpaid or declared Priority Returns accrued through September 30, 2016 is \$13.9 million.

(9) Related-party Transactions

Allocated share-based compensation expense. We recognized share-based compensation expense of \$1.0 million and \$0.4 million during the three months ended September 30, 2016 and 2015, respectively, and \$2.2 million and \$0.9 million during the nine months ended September 30, 2016 and 2015, respectively. Share-based compensation expense, which primarily relates to a liability-based share incentive award plan that we implemented on January 1, 2015, is included in SG&A expenses in our condensed consolidated statements of operations.

Interest expense. We recognized related-party interest expense on the Shareholder Loan, as defined and described below, of nil and \$0.2 million during the three months ended September 30, 2016 and 2015, respectively, and \$0.6 million and \$1.2 million during the nine months ended September 30, 2016 and 2015, respectively.

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

	<u>September 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
	<u>in millions</u>	
Assets:		
Other current assets (a)	\$ —	\$ 1.0
Other assets, net (b)	1.7	4.1
Total assets	<u>\$ 1.7</u>	<u>\$ 5.1</u>
Liabilities:		
Accounts payable (c)	\$ 2.0	\$ 1.8
Debt – Shareholder Loan (d)	—	16.0
Other long-term liabilities (e)	—	1.6
Total liabilities	<u>\$ 2.0</u>	<u>\$ 19.4</u>

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- (a) Amount represents various related-party receivables that may be cash or loan settled.
- (b) The September 30, 2016 amount represents various related-party receivables that may be cash or loan settled. The December 31, 2015 amount represents taxes of \$0.4 million and \$3.7 million paid on behalf of our Class A Preferred Member and our Class B Common Member, respectively, which during 2016, was reclassified to members' capital and reflected as non-cash distributions to members in our condensed consolidated statement of changes in members' capital.
- (c) Represents various non-interest bearing related-party payables that may be cash or loan settled.
- (d) Prior to September 30, 2016, we had a loan agreement with LiLAC Holdings (the **Shareholder Loan**), which was subordinate in right of payment to the Liberty Puerto Rico Bank Facility. The Shareholder Loan bore interest at 10.0% per annum. Accrued and unpaid interest, if any, was added to the principal of the loan on January 1 of each year. On April 29, 2016, we cash settled the outstanding principal and accrued and unpaid interest on the Shareholder Loan that totaled \$18.2 million through (i) a payment of principal and interest of \$13.3 million and \$3.5 million, respectively, to LiLAC Holdings and (ii) a payment of \$1.4 million to the Puerto Rico tax authorities representing withholding taxes for accrued interest on the Shareholder Loan.
- (e) The amount represents accrued and then unpaid interest on the Shareholder Loan.

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, 2016, we recorded a \$0.5 million adjustment to increase members' capital. This adjustment, which was recorded to other, net in our condensed consolidated statement of changes in members' capital, relates to certain 2015 capital charges associated with the exercise or release from restriction 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 are exercised or are released from restriction during the period.

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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 non-cancellable operating leases and network and connectivity commitments. As of September 30, 2016, such commitments are as follows:

	Payments due during:							Total
	Remainder of 2016	2017	2018	2019	2020	2021	Thereafter	
	in millions							
Operating leases	\$ 0.4	\$ 1.3	\$ 1.2	\$ 1.1	\$ 0.9	\$ 0.9	\$ 3.9	\$ 9.7
Network and connectivity commitments.....	0.3	1.1	1.2	1.2	1.1	1.1	3.4	9.4
Total (a)	\$ 0.7	\$ 2.4	\$ 2.4	\$ 2.3	\$ 2.0	\$ 2.0	\$ 7.3	\$ 19.1

(a) The commitments included in this table do not reflect any liabilities that are included in our September 30, 2016 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, we incurred programming and copyright costs of \$76.0 million and \$70.4 million during the nine months ended September 30, 2016 and 2015, respectively.

In addition to the commitments set forth in the table above, we have significant commitments under derivative instruments pursuant to which we expect to make payments in future periods. For information regarding our derivative instruments, see note 4.

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 (**PRTC**) 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 PRTC 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). In July 2016, the judge presiding over the PRTC Claim in the United States District Court for the District of Maine (the **District Court**) granted OneLink summary judgment that dismissed the PRTC Claim in its entirety. In August 2016, PRTC filed a notice with the United States First Circuit Court of Appeals indicating it will appeal the District Court's decision. Based on our reassessment of the PRTC Claim on appeal and the Class Action Claim, we have determined that the possibility of loss is remote. Accordingly, we have reversed our previously-recorded provision and related indemnification asset associated with the PRTC Claim, resulting in a \$5.1 million reduction to our SG&A expenses during the third quarter of 2016. Pursuant to indemnification arrangements entered into with the former owners of OneLink, we may recover a portion of the legal fees we incurred in connection with the PRTC Claim.

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

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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, withholding and other tax issues and (iii) disputes over interconnection, programming, copyright and channel 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.

(11) 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 set forth below:

	<u>Three months ended</u> <u>September 30,</u>		<u>Nine months ended</u> <u>September 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<u>in millions</u>				
Cable subscription revenue (a):				
Video.....	\$ 43.9	\$ 46.7	\$ 133.5	\$ 127.7
Broadband internet	41.8	39.5	124.5	97.0
Fixed-line telephony	7.6	7.9	23.3	23.2
Total cable subscription revenue.....	<u>93.3</u>	<u>94.1</u>	<u>281.3</u>	<u>247.9</u>
Business-to-business (B2B) revenue (b).....	4.1	2.6	11.8	5.7
Other revenue (c)	7.4	7.8	22.5	20.5
Total.....	<u>\$ 104.8</u>	<u>\$ 104.5</u>	<u>\$ 315.6</u>	<u>\$ 274.1</u>

- (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 cable 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 or 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 \$5.8 million and \$5.9 million during the three months ended September 30, 2016 and 2015, respectively, and \$17.2 million and \$15.4 million during the nine months ended September 30, 2016 and 2015, respectively.
- (c) Other revenue includes, among other items, late fee, advertising and installation revenue.

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

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

- *Forward-looking Statements.* This section provides a description of certain 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, 2016 and 2015.
- *Material Changes in Financial Condition.* This section provides an analysis of our liquidity, condensed consolidated statements of cash flows and contractual commitments.

The capitalized terms used below have been defined in the notes to our condensed consolidated financial statements. In the following text, the terms “we,” “our,” “our company” and “us” may refer, as the context requires, to Liberty Puerto Rico or collectively to 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, 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, target leverage levels and our future projected contractual commitments and cash flows. 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 cable television, 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 cable television, 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 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 2016 and 2015 results of operations. For further information regarding the Choice Acquisition, see note 3 to our condensed consolidated financial statements.

At September 30, 2016, we owned and operated a network that passed 1,085,800 homes and served 789,200 revenue generating units (**RGUs**), consisting of 323,400 broadband internet subscribers, 260,600 video subscribers and 205,200 fixed-line telephony subscribers.

We added 4,800 and 12,300 RGUs on an organic basis during the three and nine months ended September 30, 2016, respectively, as compared to 6,200 and 22,500 RGUs, respectively, added on an organic basis during the corresponding prior-year periods. The organic RGU growth during the three and nine months ended September 30, 2016 is attributable to the net effect of (i) increases of 3,400 and 11,200 fixed-line telephony RGUs, respectively, (ii) increases of 2,200 and 4,400 broadband internet RGUs, respectively, and (iii) decreases of 800 and 3,300 enhanced video RGUs, respectively.

We are facing a challenging economic environment in Puerto Rico due in part to the government's liquidity issues. This environment could adversely impact our ability to increase, or in certain cases, maintain the revenue, RGUs, Segment OCF (as defined and described below) and liquidity of our business, particularly if the economic environment were to weaken further. In this regard, the Puerto Rico government has failed to make significant portions of its scheduled debt payments during 2016. Although the Puerto Rico government has implemented tax increases and other measures to improve its solvency and the U.S. has implemented legislation designed to help manage Puerto Rico's debt crisis, it remains possible, if not likely, that Puerto Rico will be required to restructure its debt obligations. If the fiscal and economic conditions in Puerto Rico were to worsen, the population of Puerto Rico could continue to decline and the demand and ability of customers to pay for our services could be impaired, both of which could have a negative impact on our results of operations, cash flows and financial condition.

On June 23, 2016, the United Kingdom (**U.K.**) held a referendum in which U.K. citizens voted in favor of, on an advisory basis, an exit from the European Union (**E.U.**), commonly referred to as "**Brexit**." Although the vote is non-binding, the British government has announced it will formally notify the E.U. of its intention to leave the E.U. The U.K. High Court ruled on November 3, 2016 that the U.K. parliament must vote on whether the U.K. can start the process of leaving the E.U. The British government has appealed the ruling, which may take several months. The outcome of the appeal is relevant for the timing and terms under which the parties will commence negotiations to determine the terms of the U.K.'s withdrawal from the E.U. A withdrawal could, among other outcomes, disrupt the free movement of goods, services, people and capital between the U.K. and the E.U., undermine bilateral cooperation in key geographic areas and significantly disrupt trade between the U.K. and the E.U. or other nations as the U.K. pursues independent trade relations. The initial impact of the announcement of Brexit caused significant volatility in global capital markets. The effects of Brexit could adversely affect our business, results of operations and financial condition.

As we use the term, adjusted operating income before depreciation and amortization (**Segment OCF**) 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

As noted under *Overview* above, the comparability of our operating results during 2016 and 2015 is affected by the Choice Acquisition. In the following discussion, we quantify the estimated impact of the Choice Acquisition on our operating results. The acquisition impact represents our estimate of the difference between the operating results of the periods under comparison that is attributable to an acquisition. In general, we base our estimate of the acquisition impact on an acquired entity's operating results during the first three to six months following the acquisition date, as adjusted to remove integration costs and any other material nonrecurring or nonoperational items, such that changes from those operating results in subsequent periods are considered to be organic changes. Accordingly, in the following discussion, (i) variances attributed to the acquisition of Choice during the first 12 months following the acquisition date represent differences between the estimated acquisition impact and the actual results and (ii) the calculation of our organic growth percentages includes the organic growth of Choice relative to our estimate of the acquisition impact of Choice.

Revenue

Revenue includes amounts earned from (i) subscribers to our broadband communications and (ii) B2B services, installation fees, late fees and advertising revenue. 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 and late fees.

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

Our revenue by major category is set forth below:

	Three months ended September 30,		Increase (decrease)		Organic increase (decrease)
	2016	2015	\$	%	%
	in millions				
Cable subscription revenue (a):					
Video	\$ 43.9	\$ 46.7	\$ (2.8)	(6.0)	(6.0)
Broadband internet	41.8	39.5	2.3	5.8	5.8
Fixed-line telephony	7.6	7.9	(0.3)	(3.8)	(3.8)
Total cable subscription revenue.....	93.3	94.1	(0.8)	(0.9)	(0.9)
B2B revenue (b).....	4.1	2.6	1.5	57.7	57.7
Other revenue (c)	7.4	7.8	(0.4)	(5.1)	(5.1)
Total	<u>\$ 104.8</u>	<u>\$ 104.5</u>	<u>\$ 0.3</u>	<u>0.3</u>	<u>0.3</u>
	in millions				
	Nine months ended September 30,		Increase		Organic increase (decrease)
	2016	2015	\$	%	%
Cable subscription revenue (a):					
Video	\$ 133.5	\$ 127.7	\$ 5.8	4.5	(5.4)
Broadband internet	124.5	97.0	27.5	28.4	7.2
Fixed-line telephony	23.3	23.2	0.1	0.4	(4.8)
Total cable subscription revenue.....	281.3	247.9	33.4	13.5	(0.1)
B2B revenue (b).....	11.8	5.7	6.1	107.0	77.7
Other revenue (c)	22.5	20.5	2.0	9.8	(3.9)
Total	<u>\$ 315.6</u>	<u>\$ 274.1</u>	<u>\$ 41.5</u>	<u>15.1</u>	<u>1.3</u>

- (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 cable 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 \$5.8 million and \$5.9 million during the three months ended September 30, 2016 and 2015, respectively, and \$17.2 million and \$15.4 million during the nine months ended September 30, 2016 and 2015, respectively. On an organic basis, our total B2B revenue, including revenue from SOHO subscribers, increased 16.5% and 20.4% for the three and nine months ended September 30, 2016, respectively, as compared to the corresponding prior-year periods. A portion of these increases in our SOHO revenue is attributable to the conversion of our residential subscribers to SOHO subscribers.
- (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, 2016, as compared to the corresponding periods in 2015, include (i) organic increases of \$0.3 million or 0.3% and \$3.9 million or 1.3%, 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)	\$ 2.4	\$ —	\$ 2.4	\$ 2.5	\$ —	\$ 2.5
ARPU (b)	(3.2)	—	(3.2)	(2.8)	—	(2.8)
Total decrease in cable subscription revenue.....	(0.8)	—	(0.8)	(0.3)	—	(0.3)
Increase in B2B revenue (c)	—	1.5	1.5	—	5.2	5.2
Decrease in other revenue	—	(0.4)	(0.4)	—	(1.0)	(1.0)
Total organic increase (decrease).....	(0.8)	1.1	0.3	(0.3)	4.2	3.9
Impact of the Choice Acquisition.....	—	—	—	33.7	3.9	37.6
Total.....	\$ (0.8)	\$ 1.1	\$ 0.3	\$ 33.4	\$ 8.1	\$ 41.5

- (a) The increases in cable subscription revenue related to changes in the average numbers of RGUs are primarily attributable to the net effect of (i) increases in the average number of fixed-line telephony RGUs, (ii) declines in the average number of enhanced video RGUs and (iii) increases in the average number of broadband internet RGUs.
- (b) The decreases in cable subscription revenue related to changes in ARPU are attributable to the net effect of (i) adverse changes in RGU mix and (ii) a net increase for the nine-month comparison and a net decrease for the three-month comparison due to (a) higher ARPU from broadband internet services and (b) lower ARPU from fixed-line telephony and video services.
- (c) The increases in B2B revenue are largely due to higher revenue from broadband internet services.

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 (decreased) (\$2.9 million) or (6.4%) and \$10.1 million or 8.4% during the three and nine months ended September 30, 2016, respectively, as compared to the corresponding periods in 2015. The increase during the nine-month comparison includes an increase of \$16.7 million attributable to the impact of the Choice Acquisition. Excluding the effect of the Choice Acquisition during the nine-month comparison, our operating expenses decreased \$6.6 million or 4.8%. These decreases include the following factors:

- Decreases in programming and copyright costs of \$1.3 million or 5.1% and \$2.9 million or 4.1%, respectively, primarily due to the net effect of (i) declines in the number of enhanced video subscribers and (ii) increased costs for certain content;
- Decreases in network-related costs of \$0.5 million or 17.5% and \$1.4 million or 17.0%, respectively, primarily due to lower outsourced labor costs associated with customer-facing activities; and
- Decreases in fixed-line telephony costs of \$0.2 million and \$1.3 million, respectively, primarily due to lower rates.

SG&A expenses

SG&A expenses include human resources, information technology, general services, management, finance, legal, sales and marketing, 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) decreased \$6.6 million or 51.6% and \$0.8 million or 2.4% during the three and nine months ended September 30, 2016, respectively, as compared to the corresponding periods in 2015. The decrease during the nine-month comparison includes an increase of \$5.5 million attributable to the impact of the Choice Acquisition. Excluding the effect of the Choice Acquisition during the nine-month comparison, our SG&A expenses decreased \$6.3 million or 16.5%. These decreases are attributable to lower outsourced labor and professional fees of \$5.8 million or 20.1% and \$5.7 million or 5.3%, respectively, primarily due to a decrease of \$5.1 million in each period resulting from the reversal of a previously-recorded provision and related indemnification asset relating to the PRTC Claim that was recorded in connection with the acquisition of OneLink, as further described in note 10 to our condensed consolidated financial statements.

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

We recognized share-based compensation expense of \$1.0 million and \$0.4 million during the three months ended September 30, 2016 and 2015, respectively, and \$2.2 million and \$0.9 million during the nine months ended September 30, 2016 and 2015, respectively. These increases primarily relate to a liability-based share incentive award plan that we implemented on January 1, 2015.

Depreciation and amortization expense

Our depreciation and amortization expense increased \$0.2 million or 1.0% and \$9.3 million or 17.4% during the three and nine months ended September 30, 2016, respectively, as compared to the corresponding periods in 2015. These increases are primarily attributable to increases (i) during the nine-month comparison due to the impact of the Choice Acquisition and (ii) 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.

Impairment, restructuring and other operating items, net

We recognized impairment, restructuring and other operating items, net, of \$0.1 million and \$0.2 million during the three months ended September 30, 2016 and 2015, respectively, and \$1.2 million and \$7.0 million during the nine months ended September 30, 2016 and 2015, respectively. The amounts during the 2016 periods are primarily attributable to employee severance and termination costs associated with certain reorganization and integration activities. The amounts 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.

If, among other factors, (i) our enterprise value or Liberty Global's equity values were to decline significantly or (ii) the adverse impacts of economic, competitive, regulatory or other factors were to cause our results of operations or cash flows to be worse than anticipated, we could conclude in future periods that impairment charges are required in order to reduce the carrying values of our goodwill, 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 (decreased) (\$0.3 million) and \$1.9 million during the three and nine months ended September 30, 2016, respectively, as compared to the corresponding periods in 2015. The increase during the nine-month comparison is 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 decreased \$0.2 million and \$0.6 million during the three and nine months ended September 30, 2016, respectively, as compared to the corresponding periods in 2015, resulting from the settlement of the outstanding balance of the Shareholder Loan in April 2016.

For additional information regarding our related-party debt, including the settlement of the outstanding balance of the Shareholder Loan in April 2016, see note 9 to our condensed consolidated financial statements.

Realized and unrealized gains (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.

Our realized and unrealized gains (losses) on derivative instruments, net, were \$4.3 million and (\$16.3 million) during the three months ended September 30, 2016 and 2015, respectively, and (\$23.9 million) and (\$19.3 million) during the nine months ended September 30, 2016 and 2015, respectively. The gain during the three months ended September 30, 2016 is primarily due to increases in market interest rates in the U.S. dollar market and the loss during the nine months ended September 30, 2016 is primarily due to decreases in market interest rates in the U.S. dollar market. In addition, the gain (loss) during the 2016 periods include a net gain (loss) of (\$0.3 million) and \$1.4 million resulting from changes in our credit risk valuation adjustments. The losses during the 2015 periods are 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 each of the three and nine months ended September 30, 2015, 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, 2016 and 2015, we reported net earnings (loss) of \$25.5 million and (\$4.8 million), respectively, including (i) operating income of \$34.2 million and \$25.1 million, respectively, and (ii) net non-operating expense of \$8.7 million and \$29.9 million, respectively.

During the nine months ended September 30, 2016 and 2015, we reported net earnings of \$23.5 million and \$1.9 million, respectively, including (i) operating income of \$86.7 million and \$59.3 million, respectively, and (ii) net non-operating expense of \$63.2 million and \$57.4 million, respectively.

Gains or losses associated with changes in the fair values of derivative instruments are subject to a high degree of volatility and, as such, any gains from this source do not represent a reliable source of income. In the absence of significant gains in the future from this source or from other non-operating items, our ability to achieve earnings from operations is largely dependent on our ability to increase our Segment OCF to a level that more than offsets the aggregate amount of our (i) share-based compensation expense, (ii) depreciation and amortization, (iii) impairment, restructuring and other operating items, net, (iv) interest expense and (v) 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 Segment OCF. 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 \$50.6 million of cash and cash equivalents at September 30, 2016. In addition to our existing cash and cash equivalents, the primary sources of our liquidity are cash provided by operations and borrowings available under the Liberty Puerto Rico Bank Facility, as further described in note 7 to our condensed consolidated financial statements. 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, (iii) distributions or loans to our members and (iv) 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, 2016, (i) our consolidated first lien net leverage ratio was 3.56x and (ii) our consolidated total net leverage ratio was 4.44x, each as specified in, and calculated in accordance with, the Liberty Puerto Rico Bank Facility.

At September 30, 2016, the outstanding principal amount of our debt, together with our capital lease obligations, aggregated \$942.7 million, including \$0.2 million that is classified as current in our condensed consolidated balance sheet and \$942.5 million that is due in 2022 or thereafter. For additional information concerning our debt, 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 and cash equivalents, 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 provide a loan to our company pursuant to an arrangement similar to the Shareholder Loan. No assurance can be given that LiLAC Holdings would agree to loan additional amounts to our company on a subordinated basis. We may seek to refinance the Liberty Puerto Rico Bank Facility prior to its January 2022 maturity, and no assurance can be given that we will be able to complete this refinancing. In this regard, it is not possible to predict how political and economic conditions, sovereign debt concerns 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 Segment OCF 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 Segment OCF 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, 2016 and 2015 are summarized as follows:

	Nine months ended September 30,		
	2016	2015	Change
	in millions		
Net cash provided by operating activities	\$ 102.0	\$ 74.0	\$ 28.0
Net cash used by investing activities	(69.5)	(42.7)	(26.8)
Net cash used by financing activities	(47.6)	(1.8)	(45.8)
Net increase (decrease) in cash and cash equivalents	<u>\$ (15.1)</u>	<u>\$ 29.5</u>	<u>\$ (44.6)</u>

Operating activities. The increase in net cash provided by our operating activities is attributable to the net impact of (i) an increase in the cash provided by our Segment OCF 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 payments for related-party and third-party interest.

Investing activities. The increase in cash used by our investing activities is primarily attributable to higher capital expenditures.

In the following discussion, we refer to (i) our capital expenditures as reported in our condensed consolidated statements of cash flows and (ii) our total property and equipment additions, which include our capital expenditures on an accrual basis.

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:

	Nine months ended September 30,	
	2016	2015
	in millions	
Property and equipment additions.....	\$ 65.1	\$ 55.7
Changes in current liabilities related to capital expenditures.....	4.4	(9.4)
Capital expenditures.....	<u>\$ 69.5</u>	<u>\$ 46.3</u>

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

Financing activities. The increase in cash used by our financing activities primarily relates to (i) distributions to our members and (ii) the repayment of the Shareholder Loan.

Contractual Commitments

The following table sets forth our commitments as of September 30, 2016:

	Payments due during:							Total
	Remainder of 2016	2017	2018	2019	2020	2021	Thereafter	
	in millions							
Debt (excluding interest)....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 942.5	\$ 942.5
Capital leases (excluding interest).....	0.2	—	—	—	—	—	—	0.2
Operating leases.....	0.4	1.3	1.2	1.1	0.9	0.9	3.9	9.7
Network and connectivity commitments.....	0.3	1.1	1.2	1.2	1.1	1.1	3.4	9.4
Total (a).....	<u>\$ 0.9</u>	<u>\$ 2.4</u>	<u>\$ 2.4</u>	<u>\$ 2.3</u>	<u>\$ 2.0</u>	<u>\$ 2.0</u>	<u>\$ 949.8</u>	<u>\$ 961.8</u>
Projected cash interest payments on third-party debt and capital lease obligations (b).....	<u>\$ 12.5</u>	<u>\$ 48.9</u>	<u>\$ 48.9</u>	<u>\$ 49.0</u>	<u>\$ 49.1</u>	<u>\$ 48.9</u>	<u>\$ 32.0</u>	<u>\$ 289.3</u>

- (a) The commitments included in this table do not reflect any liabilities that are included in our September 30, 2016 condensed consolidated balance sheet other than debt and capital lease obligations.

- (b) Amounts are based on interest rates, interest payment dates, commitment fees and contractual maturities in effect as of September 30, 2016. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. In addition, the amounts presented do not include the impact of our interest rate derivative contracts, deferred financing costs or original issue discounts.

For information concerning our debt and capital lease obligations, see note 7 to our condensed consolidated financial statements. For information concerning our commitments, see note 10 to our condensed consolidated financial statements.

In addition to the commitments set forth in the table above, we have significant commitments under derivative instruments, pursuant to which we expect to make payments in future periods. For information regarding projected cash flows associated with our derivative instruments, see *Projected Cash Flows Associated with Derivative Instruments* below. For information regarding our derivative instruments, including the net cash paid in connection with these instruments during the nine months ended September 30, 2016, see note 4 to our condensed consolidated financial statements.

Projected Cash Flows Associated with Derivative Instruments

The following table provides information regarding the projected net cash flows associated with our derivative instruments. The amounts presented below are based on interest rates that were in effect as of September 30, 2016. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. For additional information regarding our derivative instruments, including our counterparty credit risk, see note 4 to our condensed consolidated financial statements.

	Payments due during:							Total
	Remainder of 2016	2017	2018	2019	2020	2021	Thereafter	
	in millions							
Interest-related (a).....	\$ —	\$ 10.3	\$ 10.2	\$ 8.9	\$ 8.4	\$ 8.5	\$ 1.9	\$ 48.2

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