LEO CABLE LP

Consolidated Financial Statements
December 31, 2019

LEO CABLE LP

1550 Wewatta Street, Suite 710
Denver, Colorado 80202

LEO CABLE LP

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019

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Independent Auditors' Report

The Board of Directors
Leo Cable LP:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Leo Cable LP and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, changes in members' capital, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Leo Cable LP and its subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2019, in accordance with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Denver, Colorado
March 17, 2020

LEO CABLE LP
CONSOLIDATED BALANCE SHEETS

	December 31, 2019	December 31, 2018
	in millions	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 50.1	$ 19.8
Trade receivables, net of allowances of $10.7 million and $10.0 million, respectively	18.3	21.7
Prepaid expenses	6.4	7.1
Derivative instruments	6.3	10.5
Insurance settlement receivable	—	26.9
Current income tax receivable	13.2	13.2
Other current assets	4.5	2.3
Total current assets	98.8	101.5
Property and equipment, net	524.2	494.5
Goodwill	277.7	277.7
Cable television franchise rights	540.0	540.0
Customer relationships, net	50.2	68.5
Restricted cash	1,255.9	—
Other assets, net	11.1	4.4
Total assets	$ 2,757.9	$ 1,486.6
LIABILITIES AND MEMBERS' CAPITAL		
Current liabilities:		
Accounts payable	$ 22.1	$ 14.9
Deferred revenue	9.6	11.1
Accrued capital expenditures	29.0	26.2
Third-party accrued interest	18.1	13.1
Related-party accrued liabilities	7.7	6.3
Derivative instruments	11.6	—
Other accrued and current liabilities	17.3	23.7
Total current liabilities	115.4	95.3
Long-term debt:		
Third-party	2,173.0	933.7
Deferred tax liabilities	137.2	137.3
Other long-term liabilities	44.8	15.8
Total liabilities	2,470.4	1,182.1
Commitments and contingencies		
Members' capital:	287.5	304.5
Total liabilities and members' capital	$ 2,757.9	$ 1,486.6

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

LEO CABLE LP

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31,		
	2019	2018	2017
		in millions	
Revenue	$ 412.1	$ 335.6	$ 320.5
Operating costs and expenses (exclusive of depreciation and amortization, shown separately below):			
Programming and other direct costs of services	92.8	79.4	82.2
Other operating	59.0	56.2	57.2
Selling, general and administrative (**SG&A**)	59.3	53.9	49.8
Business interruption loss recovery	—	(48.5)	—
Related-party fees and allocations	9.5	4.6	—
Depreciation and amortization	85.4	86.0	87.5
Impairment, restructuring and other operating items, net	4.7	(23.1)	90.6
	310.7	208.5	367.3
Operating income (loss)	101.4	127.1	(46.8)
Non-operating income (expense):			
Interest expense	(78.0)	(62.2)	(51.5)
Interest income	3.4	—	—
Realized and unrealized gains (losses) on derivative instruments, net	(27.9)	4.0	(2.6)
Loss on debt modification and extinguishment	(6.7)	—	(2.8)
Other income (expense), net	(0.5)	—	0.4
	(109.7)	(58.2)	(56.5)
Earnings (loss) before income taxes	(8.3)	68.9	(103.3)
Income tax benefit (expense)	(2.3)	(19.7)	88.5
Net earnings (loss)	$ (10.6)	$ 49.2	$ (14.8)

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

LEO CABLE LP

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' CAPITAL

	LiLAC Communications	Minority owner	Total members' capital
Balance at January 1, 2017	$ 105.6	$ 116.4	$ 222.0
Net loss	(8.9)	(5.9)	(14.8)
Cash distributions	(21.9)	(14.6)	(36.5)
Capital charge in connection with exercise or release of share-based incentive awards	(0.6)	(0.4)	(1.0)
Share-based compensation	0.4	0.3	0.7
Balance at December 31, 2017	74.6	95.8	170.4
Accounting change (note 2)	(0.1)	—	(0.1)
Balance at January 1, 2018, as adjusted for accounting change	74.5	95.8	170.3
Net earnings	29.5	19.7	49.2
Cash contributions	85.0	—	85.0
Balance at December 31, 2018	189.0	115.5	304.5
Net loss	(6.4)	(4.2)	(10.6)
Excess of consideration paid over carrying value for certain business-to-business (**B2B**) operations transferred from entities under common control	(3.8)	(2.6)	(6.4)
Balance at December 31, 2019	$ 178.8	$ 108.7	$ 287.5

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

LEO CABLE LP

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2019	2018	2017
		in millions	
Cash flows from operating activities:			
Net earnings (loss)	$ (10.6)	$ 49.2	$ (14.8)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Non-cash share-based compensation	—	—	1.3
Depreciation and amortization	85.4	86.0	87.5
Impairment	—	0.4	94.3
Amortization of debt financing costs and discounts	3.0	2.5	2.5
Realized and unrealized losses (gains) on derivative instruments, net	27.9	(4.0)	2.6
Loss on debt modification and extinguishment	6.7	—	2.8
Deferred income tax expense (benefit)	(3.2)	14.1	(89.9)
Insurance receipts	18.4	50.1	—
Changes in operating assets and liabilities:			
Receivables and other operating assets	4.1	(31.9)	(11.9)
Payables and accruals	8.4	(50.8)	(23.0)
Net cash provided by operating activities	140.1	115.6	51.4
Cash flows from investing activities:			
Capital expenditures	(75.9)	(197.5)	(90.9)
Consideration paid in connection with the C&W Transfer	(16.1)	—	—
Recovery on damaged or destroyed property and equipment	8.5	15.7	—
Net cash used by investing activities	(83.5)	(181.8)	(90.9)
Cash flows from financing activities:			
Cash contributions (distributions), net	—	85.0	(36.5)
Borrowings of third-party debt	1,267.5	—	40.0
Repayments of third-party debt and capital lease obligations	(20.0)	(40.0)	(0.2)
Payment of financing costs	(17.9)	—	(1.3)
Net cash provided by financing activities	1,229.6	45.0	2.0
Net increase (decrease) in cash, cash equivalents and restricted cash	1,286.2	(21.2)	(37.5)
Cash, cash equivalents and restricted cash:			
Beginning of year	19.8	41.0	78.5
End of year	$ 1,306.0	$ 19.8	$ 41.0
Cash paid for interest - third-party	$ 70.0	$ 57.5	$ 48.7
Cash paid for taxes	$ 4.7	$ —	$ 16.3

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

(1) Basis of Presentation

Organization

Leo Cable LP (**Leo Cable**) holds a 100% interest in LCPR Cayman Holding Inc. (**Cayman Holding**) and a 100% interest in LCPR Ventures LLC (**LCPR Ventures**), each formed to effect the Puerto Rico Transaction, as defined and further described below. In these notes, the terms "**we**," "**our**," "**our company**" and "**us**" may refer, as the context requires, to Leo Cable or collectively to Leo Cable and its subsidiaries.

On November 5, 2012, LiLAC Communications Inc. (**LiLAC Communications**) contributed its 100% interest in its Puerto Rican broadband communications subsidiary (**Old LCPR**) to us and we immediately contributed Old LCPR to Cayman Holding in exchange for a 100% interest in Cayman Holding. LiLAC Communications is a wholly-owned subsidiary of Liberty Latin America Ltd. (**Liberty Latin America**).

Liberty Cablevision of Puerto Rico LLC (**LCPR**) is a provider of fixed telecommunications services to residential and business customers in Puerto Rico. LCPR 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**). LiLAC Communications owns 60% of Leo Cable. As of October 17, 2018, another wholly-owned subsidiary of Liberty Latin America (our **Minority Owner**) acquired Searchlight's 40% interest in Leo Cable.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (**U.S. GAAP**).

These consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through March 17, 2020, the date of issuance.

(2) Accounting Changes and Recent Accounting Pronouncements

Accounting Changes

ASU 2016-02

In February 2016, the Financial Accounting Standards Board (**FASB**) issued Accounting Standards Update (**ASU**) No. 2016-02, *Leases* (**ASU 2016-02**), as amended by ASU No. 2018-11, *Targeted Improvements*, which provides an option to use one of two modified retrospective approaches in the adoption of ASU 2016-02. ASU 2016-02, for most leases, results in lessees recognizing right-of-use assets and lease liabilities on the balance sheet and additional disclosures. We adopted ASU 2016-02 effective January 1, 2019 using the effective date transition method. A number of optional practical expedients were applied in transition, as further described below.

The main impact of the adoption of this standard was the recognition of right-of-use assets and lease liabilities in our consolidated balance sheet as of January 1, 2019 for those leases classified as operating leases under ASU 2016-02. We did not recognize right-of-use assets or lease liabilities for leases with a term of 12 months or less, as permitted by the short-term lease practical expedient in the standard. In transition, we applied the practical expedients that permit us not to reassess (i) whether expired or existing contracts are or contain a lease under the new standard, (ii) the lease classification for expired or existing leases, (iii) whether previously-capitalized initial direct costs would qualify for capitalization under the new standard and (iv) whether existing or expired land easements that were not previously accounted for as leases are or contain a lease. We also applied the practical expedient that permits us to account for customer service revenue contracts that include both non-lease and lease components as a single component in all instances where the non-lease component is the predominant component of the arrangement and the other applicable criteria are met. In addition, we did not use hindsight during the transition.

The cumulative effect of the changes made to our consolidated balance sheet as of January 1, 2019 is as follows:

	Balance at December 31, 2018	Cumulative catch up adjustments upon adoption	Balance at January 1, 2019
		in millions	
Assets:			
Other assets, net	$ 4.4	$ 4.7	$ 9.1
Liabilities:			
Other accrued and current liabilities	$ 23.7	$ 0.9	$ 24.6
Other long-term liabilities	$ 15.8	$ 3.9	$ 19.7

ASU 2018-13

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* (**ASU 2018-13**). ASU 2018-13 modifies certain disclosure requirements on fair value measurements, including (i) clarifying narrative disclosure regarding measurement uncertainty from the use of unobservable inputs, if those inputs reasonably could have been different as of the reporting date, (ii) adding certain quantitative disclosures, including the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and (iii) removing certain fair value measurement disclosure requirements, including (a) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, (b) the policy for timing of transfers between levels of the fair value hierarchy and (c) the valuation processes for Level 3 fair value measurements. The amendments in ASU 2018-13 are effective for annual reporting periods beginning after December 15, 2019. We are permitted to early adopt any removed or modified disclosures and delay adoption of the additional disclosures until their effective date. As of December 31, 2018, we early adopted the portion of ASU 2018-13 that allows for the removal of certain fair value measurement disclosures from our consolidated financial statements. We do not expect the remaining disclosure requirements of ASU 2018-13 will have a material effect on our consolidated financial statements.

ASU 2014-09

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. We adopted ASU 2014-09 effective January 1, 2018 by recording the cumulative effect to the opening balance of LiLAC Communications' capital account. We applied the new standard to contracts that were not complete as of January 1, 2018. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The primary impact of ASU 2014-09 relates to the revenue recognition policy surrounding our accounting for certain installation and other upfront fees charged to our customers.

When we enter into contracts to provide services to our customers, we often charge installation or other upfront fees. Under previous accounting standards, installation fees related to services provided over our fixed networks were recognized as revenue during the period in which the installation occurred to the extent those fees were equal to or less than direct selling costs. Under ASU 2014-09, these fees are generally deferred and recognized as revenue over the contractual period for those contracts with substantive termination penalties, or for the period of time the upfront fees convey a material right for month-to-month contracts and contracts that do not include substantive termination penalties.

ASU 2014-09 also impacted our accounting for certain upfront costs directly associated with obtaining and fulfilling customer contracts. Under our previous policy, these costs were expensed as incurred unless the costs were in the scope of other accounting standards that allowed for capitalization. Under ASU 2014-09, the upfront costs associated with contracts that have substantive termination penalties and a term of longer than one year are recognized as assets and amortized to other operating expenses over the applicable period benefited.

The impact of adopting ASU 2014-09 did not have a material impact on our consolidated financial statements for the year ended December 31, 2018. For our disaggregated revenue by product, see note 15.

Recent Accounting Pronouncements

General

We expect to adopt the following accounting pronouncement in conjunction with Liberty Latin America.

ASU 2016-13

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses—Measurement of Credit Losses on Financial Instruments (***ASU 2016-13**), as amended by (i) ASU No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, which amended certain effective dates, and (ii) ASU No. 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, which clarifies guidance around how to report expected recoveries. ASU 2016-13 replaces the incurred loss impairment methodology for recognizing credit losses with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. We will be required to use a forward-looking expected credit loss model for accounts receivables, loans and other financial instruments. ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. Adoption of the standard will be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date to align our credit loss methodology with the new standard. We do not expect the adoption of ASU 2016-13 will have a material impact on our consolidated financial statements.

ASU 2018-15

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software—Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (***ASU 2018-15***)*. ASU 2018-15 provides additional guidance on ASU No. 2015-05, *Intangibles—Goodwill and Other—Internal-Use Software—Customer's Accounting for Fees Paid in a Cloud Computing Arrangement,* which was issued to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement (hosting arrangement) by providing guidance for determining when the arrangement includes a software license. ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The guidance (i) provides criteria for determining which implementation costs to capitalize as an asset related to the service contract and which costs to expense, (ii) requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement and (iii) clarifies the presentation requirements for reporting such costs in the entity's financial statements. ASU 2018-15 is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. We will apply ASU 2018-15 prospectively to all implementation costs incurred after the date of adoption and do not expect it will have a material impact on our consolidated financial statements.

ASU 2019-12

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* (**ASU 2019-12**), which (i) simplifies the accounting for income taxes by removing certain exceptions for recognizing deferred taxes for investments, performing intraperiod allocations and calculating income taxes in interim periods, and (ii) reduces the complexity in certain areas of existing tax guidance, including the recognition of deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. ASU 2019-12 is effective for annual reporting periods after December 15, 2020, with early adoption permitted. Although we are currently evaluating the effect that ASU 2019-12 will have on our consolidated financial statements, we do not expect it will have a material impact.

(3) Summary of Significant Accounting Policies

Estimates

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, deferred income taxes and related valuation allowances, programming and copyright expenses, loss contingencies, fair value measurements, impairment assessments, capitalization of internal costs associated with construction and installation activities and useful lives of long-lived assets. Actual results could differ from those estimates.

Reclassifications

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

Principles of Consolidation

The accompanying consolidated financial statements include our accounts and the accounts of all voting interest entities where we exercise a controlling financial interest through the ownership of a direct or indirect controlling voting interest and variable interest entities for which our company is the primary beneficiary. Intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents and Restricted Cash

Cash equivalents consist of money market funds that are readily convertible into cash and have maturities of three months or less at the time of acquisition. We record money market funds at the net asset value as there are no restrictions on our ability, contractual or otherwise, to redeem our investments.

Restricted cash consists of cash held in restricted accounts, including cash held as collateral for acquisitions and debt, as applicable. Cash that is restricted to a specific use is classified as current or long-term based on, among other things, the expected use and timing of disbursement of the restricted cash. At December 31, 2019 and 2018, our long-term restricted cash balance was $1,256 million and nil, respectively. For further information on our restricted cash, see note 9.

Cash Flow Statement

For purposes of determining the classification of cash flows in our consolidated statements of cash flows, payments or receipts on related-party receivables or loans are first applied to principal (included as cash flows from financing activities) and then to capitalized interest (included as cash flows from operating activities). In addition, interest-bearing cash advances to related parties and repayments thereof are classified as investing activities. All other related-party borrowings, advances and repayments are reflected as financing activities.

Trade Receivables

Our trade receivables are reported net of an allowance for doubtful accounts. The allowance for doubtful accounts is based upon our assessment of probable loss related to uncollectible accounts receivable. We use a number of factors in determining the allowance, including, among other things, collection trends, prevailing and anticipated economic conditions and specific customer credit risk. The allowance is maintained until either payment is received or the likelihood of collection is considered to be remote.

Concentration of credit risk with respect to trade receivables is limited due to the large number of customers.

Financial Instruments

Due to the short maturities of cash and cash equivalents, trade and other receivables, other current assets, accounts payable, accrued liabilities and other accrued and current liabilities, their respective carrying values approximate their respective fair values. For information concerning the fair values of our derivative instruments, see note 5. For information regarding how we arrive at certain of our fair value measurements, see note 6.

Derivative Instruments

Derivative Instruments Recorded at Fair Value

All derivative instruments, except the Weather Derivative defined and described below, are recorded on the consolidated balance sheets at fair value. As we do not apply hedge accounting to our derivative instruments, the changes in the fair values of our derivative instruments are recognized in earnings.

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

Weather Derivative

Our weather derivative contract (the **Weather Derivative**) is not accounted for at fair value. The premium paid associated with the Weather Derivative is recorded in other current assets, net in our consolidated balance sheet, and the amortization of the premium is included in realized and unrealized gains (losses) on derivative instruments, net in our consolidated statement of operations. The cash paid associated with the premium is classified as an operating activity in our consolidated statement of cash flows. In the event of a payout under our Weather Derivative, the cash received would be classified as an operating activity in our consolidated statements of cash flows.

For information regarding our derivative instruments, see note 5.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. We capitalize costs associated with the construction of new cable transmission and distribution facilities and the installation of new cable services. The nature and amount of labor and other costs to be capitalized with respect to construction and installation activities involves significant judgment. In addition to direct external and internal labor and materials, we also capitalize other costs directly attributable to our construction and installation activities, including dispatch costs, quality-control costs, vehicle-related costs and certain warehouse-related costs. The capitalization of these costs is based on time sheets, time studies, standard costs, call tracking systems and other verifiable means that directly link the costs incurred with the applicable capitalizable activity. We continuously monitor the appropriateness of our capitalization policies and update the policies when necessary to respond to changes in facts and circumstances, such as the development of new products and services and changes in the manner that installations or construction activities are performed. Installation activities that are capitalized include (i) the initial connection (or drop) from our cable system to a customer location, (ii) the replacement of a drop and (iii) the installation of equipment for additional services, such as digital cable, telephone or broadband internet service. The costs of other customer-facing activities, such as reconnecting and disconnecting customer locations and repairing or maintaining drops, are expensed as incurred. Interest capitalized with respect to construction activities was not material during any of the periods presented.

We capitalize internal and external costs directly associated with the development of internal-use software. Capitalized internal-use software is included as a component of property and equipment. We also capitalize costs associated with the purchase of software licenses. Maintenance and training costs, as well as costs incurred during the preliminary stage of an internal-use software development project, are expensed as incurred.

Depreciation is computed using the straight-line method over the estimated useful life of the underlying asset. Useful lives used to depreciate our property and equipment are assessed periodically and are adjusted when warranted. The useful lives of cable distribution systems that are undergoing a rebuild are adjusted such that property and equipment to be retired will be fully depreciated by the time the rebuild is completed. For additional information regarding the useful lives of our property and equipment, see note 8.

Additions, replacements and improvements that extend the asset life are capitalized. Repairs and maintenance are expensed as incurred.

Intangible Assets

Our primary intangible assets relate to goodwill, cable television franchise rights and customer relationships. Goodwill represents the excess purchase price over the fair value of the identifiable net assets acquired in a business combination. Cable television franchise rights and customer relationships are initially recorded at their fair values in connection with business combinations.

Goodwill and cable television franchise rights have indefinite useful lives and are not amortized, but instead are tested for impairment at least annually. Intangible assets with finite lives are amortized on a straight-line basis over their respective estimated useful lives and reviewed for impairment.

For additional information regarding the useful lives of our intangible assets, see note 8.

Impairment of Property and Equipment and Intangible Assets

When circumstances warrant, we review the carrying amounts of our property and equipment and our intangible assets (other than goodwill and cable television franchise rights) to determine whether such carrying amounts continue to be recoverable. Such changes in circumstance may include (i) the impact of natural disasters, such as hurricanes, (ii) an expectation of a sale or disposal of a long-lived asset or asset group, (iii) adverse changes in market or competitive conditions, (iv) an adverse change in legal factors or business climate in the market in which we operate and (v) operating or cash flow losses. For purposes of impairment testing, long-lived assets are grouped at the lowest level for which cash flows are largely independent of other assets and liabilities. If the carrying amount of the asset or asset group is greater than the expected undiscounted cash flows to be generated by such asset or asset group, an impairment adjustment is recognized. Such adjustment is measured by the amount that the carrying value of such asset or asset group exceeds its fair value. We generally measure fair value by considering (i) sale prices for similar assets, (ii) discounted estimated future cash flows using an appropriate discount rate and/or (iii) estimated replacement cost. Assets to be disposed of are recorded at the lower of their carrying amount or fair value less costs to sell.

We evaluate goodwill and cable television franchise rights for impairment at least annually on October 1 and whenever facts and circumstances indicate that their carrying amounts may not be recoverable. For purposes of goodwill impairment evaluations, our operations consist of one reporting unit. A reporting unit is an operating segment or one level below an operating segment (referred to as a "component"). Our operating segment is deemed to be a reporting unit as it comprises a single component. For impairment evaluations with respect to both goodwill and cable television franchise rights, we first make a qualitative assessment to determine if the goodwill or cable television franchise rights may be impaired. In the case of goodwill, if it is more-likely-than-not that a reporting unit's fair value is less than its carrying value, we then compare the fair value of the reporting unit to its respective carrying amount. Goodwill impairment is recorded as the excess of a reporting unit's carrying value over its fair value and is charged to operations as an impairment loss. With respect to cable television franchise rights, if it is more-likely-than-not that the fair value of the cable television franchise rights are less than their carrying value, we then estimate their fair value and any excess of the carrying value over the fair value is also charged to operations as an impairment loss. For additional information regarding the fair value measurements of our property and equipment and intangible assets, see note 6. For additional information regarding impairments recorded during 2017, see note 8.

Operating Leases

We classify leases with a term of greater than 12 months where substantially all risks and rewards incidental to ownership are retained by the third-party lessors as operating leases. We record a right-of-use asset and an operating lease liability at inception of the lease at the present value of the lease payments plus certain other payments, including variable lease payments and amounts probable of being owed by us under residual value guarantees. Payments made under operating leases, net of any incentives received from the lessors, are recognized to expense on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging operating leases are recognized to expense when incurred. Contingent rental payments are recognized to expense when incurred. Our right-of-use assets are included in other assets, net, in our consolidated balance sheet. Our current and non-current operating lease liabilities are included in other accrued and current liabilities and other long-term liabilities, respectively, in our consolidated balance sheet.

We use a credit-adjusted discount rate to measure our operating lease liabilities. We derive the discount rate starting with a risk free rate, generally the United States (**U.S.**)Treasury Bill rate. To determine credit risk, we create an industry benchmark credit default swap (**CDS**) curve from an observable high-yield debt index using comparable telecommunication companies as a proxy. We then determine the maximum curve shift against this CDS curve derived from our own tradable debt, and make adjustments to correct for the collateralized interest rate spread by comparing unsecured debt to asset-backed securities (secured debt) trades, which is based on the spread between the BB- and B+ industrial curves. We determine the discount factor from this adjusted curve.

Our operating leases primarily consist of lease commitments for (i) retail stores, offices and facilities, (ii) other network assets and (iii) other equipment. It is expected that in the normal course of business, operating leases that expire generally will be renewed or replaced by similar leases.

Income Taxes

Effective with our formation on June 15, 2012, we elected to be treated as a pass-through entity for U.S. federal and Puerto Rico income tax purposes. Accordingly, our taxable income or loss, which may vary substantially from the net earnings or loss reported in our consolidated statements of operations, is included in the income tax returns of our members. We record income taxes in the accompanying consolidated financials to reflect the taxable positions taken by our consolidated subsidiaries for U.S. and Puerto Rico purposes.

Income taxes are accounted for under the asset and liability method. We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts and income tax basis of assets and liabilities and the expected benefits of utilizing net operating loss and tax credit carryforwards, using enacted tax rates in effect for each taxing jurisdiction in which we operate for the year in which those temporary differences are expected to be recovered or settled. We recognize the financial statement effects of a tax position when it is more-likely-than-not, based on technical merits, that the position will be sustained upon examination. Net deferred tax assets are then reduced by a valuation allowance if we believe it is more-likely-than-not such net deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. Interest and penalties related to income tax liabilities are included in income tax benefit or expense.

Revenue Recognition

We categorize revenue into two major categories: (i) residential revenue, which includes revenue from fixed services provided to residential customers, and (ii) B2B service revenue. For additional information regarding our revenue by major category, see note 15. Our revenue recognition policies are as follows.

General. Most of our fixed residential contracts are not enforceable or do not contain substantive early termination penalties. Accordingly, revenue relating to these customers is recognized on a basis consistent with customers that are not subject to contracts. We account for customer service revenue contracts that include both non-lease and lease components as a single component in all instances where the non-lease component is the predominant component of the arrangement and the other applicable criteria are met.

Residential Fixed and B2B Service Revenue – Fixed Networks. We recognize revenue from video, broadband internet and fixed-line telephony services over our fixed networks to customers in the period the related residential fixed or B2B services are provided. Installation or other upfront fees related to services provided over our fixed networks are generally deferred and recognized as subscription revenue over the contractual period, or longer if the upfront fee results in a material renewal right. We defer upfront installation and certain nonrecurring fees received on B2B contracts where we maintain ownership of the installed equipment. The deferred fees are amortized into revenue on a straight-line basis over the term of the arrangement or the expected period of performance.

We may also sell video, broadband internet and fixed-line telephony services to our customers in bundled packages at a rate lower than if the customer purchased each product on a standalone basis. Arrangement consideration from bundled packages generally is allocated proportionally to the individual service based on the relative standalone price for each respective product or service.

Government Funding Revenue. During 2018, we received funds from the U.S. Federal Communications Commission (the **FCC**), which were granted to help restore and improve coverage and service quality from damages caused by Hurricanes Irma and Maria. The FCC does not meet the definition of a “customer”, accordingly we recognized the funds granted from the FCC as other revenue in the period in which we were entitled to receive the funds. For additional information regarding funding received during the third quarter of 2018, see note 15.

Sales and Use Taxes. Revenue is recorded net of applicable sales and use taxes.

Litigation Costs

Legal fees and related litigation costs are expensed as incurred.

(4) Acquisition

Pending Acquisition

On October 9, 2019, we and Liberty Latin America entered into a stock purchase agreement with certain subsidiaries of AT&T Inc. (**AT&T**) to acquire AT&T's wireless and wireline operations in Puerto Rico and the U.S. Virgin Islands (the **AT&T Acquisition**) in an all-cash transaction. The AT&T Acquisition companies provide consumer mobile and B2B services in Puerto Rico and the U.S. Virgin Islands, excluding DirecTV customers. The AT&T Acquisition is valued at an enterprise value of $1,950 million on a cash- and debt-free basis, subject to certain adjustments. We intend to finance this acquisition, including related fees and expenses, through a combination of net proceeds from the 2027 LPR Senior Secured Notes and the 2026 SPV Credit Facility, each as defined and further discussed in note 9, and an equity contribution from Liberty Latin America's available liquidity.

The transaction is subject to customary closing conditions, including reviews by the United States FCC and the Department of Justice. We currently expect the transaction to close in the second quarter of 2020.

AT&T will provide ongoing support to the AT&T Acquisition companies under a transition services agreement (the **AT&T TSA**) for a period up to 36 months following the closing date of the acquisition. Services under the AT&T TSA include, but are not limited to, (i) wireless core, (ii) technology development, (iii) global technology operations, (iv) wireless engineering, (v) network infrastructure, (vi) supply chain and (vii) finance and sales operations. We may terminate any services under the AT&T TSA upon sixty business days' notice to AT&T in accordance with the terms and conditions of the AT&T TSA.

(5) Derivative Instruments

In general, we seek to enter into derivative instruments to protect against increases in the interest rates on our variable-rate debt.

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

	December 31, 2019			December 31, 2018		
	Current	Long-term (a)	Total	Current	Long-term (a)	Total
	in millions					
Assets (b)	$ 6.3	$ 0.1	$ 6.4	$ 10.5	$ 0.5	$ 11.0
Liabilities (b)	$ 11.6	$ 33.4	$ 45.0	$ —	$ 10.6	$ 10.6

(a) Our long-term derivative assets and long-term derivative liabilities are included in other assets, net, and other long-term liabilities, respectively, in our consolidated balance sheets.

(b) We consider credit risk relating to our and our counterparty's nonperformance in the fair value assessment of our derivative instruments. In all cases, the adjustments take into account offsetting liability or asset positions. The changes in the credit risk valuation adjustments associated with our interest rate derivative contracts resulted in a net gain of $2 million during 2019 and were not material during 2018 and 2017. These amounts are included in realized and unrealized gains (losses) on derivative instruments, net, in our consolidated statements of operations. For further information regarding our fair value measurements, see note 6.

The derivative assets set forth in the table above exclude our Weather Derivative, as defined and described in note 3, as it is not accounted for at fair value. The Weather Derivative is included in other current assets, net in our consolidated balance sheet.

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

	Year ended December 31,		
	2019	2018	2017
		in millions	
Interest rate derivative contracts	$ (26.9)	$ 4.0	$ (2.6)
Other (a)	(1.0)	—	—
Total	$ (27.9)	$ 4.0	$ (2.6)

(a) The amount for the 2019 includes amortization of the premium associated with our Weather Derivative, which we entered into during the second quarter of 2019.

Our net cash inflows (outflows) related to derivative instruments during 2019, 2018 and 2017 were $10 million, ($3 million) and ($9 million), respectively, and are classified as operating activities in our consolidated statements of cash flows.

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 has not been posted by either party under our derivative instruments. At December 31, 2019, our exposure to counterparty credit risk resulting from our net derivative positions was not material.

We have entered into derivative instruments under agreements with our counterparty that contain master netting arrangements that are applicable in the event of early termination by either party to such derivative instrument.

Details of our Derivative Instruments

Interest Rate Derivative Contracts

Interest Rate Swaps

As noted above, we enter into interest rate swaps to protect against increases in the interest rates on our variable-rate debt. Pursuant to these derivative instruments, we typically pay fixed interest rates and receive variable interest rates on specified notional amounts. At December 31, 2019, the outstanding notional amount of our interest rate swap contracts was $1,000 million and the related weighted average remaining contractual life was 6.6 years.

Basis Swaps

Basis swaps involve the exchange of attributes used to calculate our floating interest rates, including (i) the benchmark rate, (ii) the underlying currency and/or (iii) the borrowing period. We typically enter into these swaps to optimize our interest rate profile based on our current evaluations of yield curves, our risk management policies and other factors. At December 31, 2019, the outstanding notional amount of our basis swap contracts, which includes forward-starting instruments, was $1,590 million and the related weighted average remaining contractual life was 0.7 years.

(6) Fair Value Measurements

General

We use the fair value method to account for our derivative instruments. The reported fair values of our derivative instruments as of December 31, 2019 likely will not represent the value that will be paid or received upon the ultimate settlement or disposition of these assets and liabilities, as we expect that the values realized generally will be based on market conditions at the time of settlement, which may occur at the maturity of the derivative instrument or at the time of the repayment or refinancing of the underlying debt instrument.

U.S. GAAP provides for a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

Recurring Fair Value Measurements - Derivatives

In order to manage our interest rate risk, we have entered into various derivative instruments, as further described in note 5. The recurring fair value measurements of these derivative instruments are determined using discounted cash flow models. Most of the inputs to these discounted cash flow models consist of, or are derived from, observable Level 2 data for substantially the full term of these derivative instruments. This observable data mostly includes interest rate futures and swap rates, which are retrieved or derived from available market data. Although we may extrapolate or interpolate this data, we do not otherwise alter this data in performing our valuations. We incorporate a credit risk valuation adjustment in our fair value measurements to estimate the impact of both our own nonperformance risk and the nonperformance risk of our counterparty. Our and our counterparty's 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 counterparty's 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 derivative contracts are quantified and further explained in note 5.

Nonrecurring Fair Value Measurements - Impairment Assessments

Fair value measurements are also used for purposes of nonrecurring valuations performed in connection with impairment assessments. The nonrecurring valuations associated with impairment assessments use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy. During 2019, we did not perform any significant fair value measurements.

In September 2017, the island of Puerto Rico was impacted by Hurricanes Maria and, to a lesser extent, Irma (collectively, the **Hurricanes**), resulting in extensive damage to homes, businesses and infrastructure. The effects of the Hurricanes were deemed to constitute triggering events with respect to the need to assess certain assets for impairment. Nonrecurring valuations were performed in connection with these impairment assessments, most notably to measure the fair value of our company for purposes of assessing goodwill impairments and to measure the fair value of our cable television franchise rights. We used a discount rate of 8% in the valuation of our company, while a discount rate of 9% was used in the valuation of our cable television franchise rights. The valuation of our company used projected cash flows that reflected the significant risks and uncertainties associated with our recovery from the Hurricanes, including variables such as (i) the length of time estimated to restore the power and transmission systems, (ii) the number of people estimated to leave the island for an extended period or permanently and the associated impact on customer churn, (iii) the amount of potential insurance recoveries and (iv) the estimated capital expenditures required to restore our damaged network. For additional information regarding the impairment charges related to the Hurricanes, see note 8.

(7) <u>Insurance Recoveries</u>

In September 2017, the island of Puerto Rico was impacted by the Hurricanes, resulting in extensive damage to homes, businesses and infrastructure. In December 2018, insurance claims for the Hurricanes were settled. The following table summarizes the third-party impact of the insurance settlements to our consolidated statements of operations:

	Year ended December 31,	
	2018	2017
	in millions	
Other operating	$ 0.4	$ —
Business interruption	48.5	—
Impairment, restructuring and other operating items, net (a)	18.6	3.8
Total	$ 67.5	$ 3.8

(a) For information regarding the related-party impact of the insurance settlements to our consolidated statements of operations, see note 13.

During 2018, we received net advance payments related to the Hurricanes totaling $50 million ($45 million from a third-party insurance provider and the remainder from a captive insurance company (the **Captive**), a then subsidiary of Cable & Wireless Communications Limited (**C&W**)), of which $16 million is presented as a cash inflow from investing activities on our consolidated statement of cash flows.

During the first quarter of 2019, we received the remaining outstanding insurance settlement amount of $27 million, of which $18 million and $9 million have been presented as operating and investing activities, respectively, in our consolidated statement of cash flows.

(8) Long-lived Assets

Property and Equipment, Net

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

	Estimated useful life at December 31, 2019	December 31, 2019	December 31, 2018
		in millions	
Distribution systems	5 to 15 years	$ 623.2	$ 555.6
Customer premises equipment (**CPE**)	3 to 5 years	269.9	246.0
Support equipment, buildings and land	3 to 40 years	76.6	70.4
		969.7	872.0
Accumulated depreciation		(445.5)	(377.5)
Total property and equipment, net		$ 524.2	$ 494.5

Depreciation expense related to our property and equipment was $67 million, $68 million and $72 million during 2019, 2018 and 2017, respectively.

Most of our property and equipment is pledged as security under the LPR Credit Facilities and the 2027 LPR Senior Secured Notes, as defined in note 9. For additional information, see note 9.

Customer Relationships, Net

The details of our customer relationships, which have an estimated average useful life of five years at December 31, 2019, and the related accumulated amortization are set forth below:

	December 31, 2019	December 31, 2018
	in millions	
Gross carrying amount	$ 149.1	$ 149.1
Accumulated amortization	(98.9)	(80.6)
Net carrying amount	$ 50.2	$ 68.5

Amortization expense of intangible assets with finite useful lives was $18 million, $18 million and $16 million during 2019, 2018 and 2017, respectively.

Based on our customer relationships balance at December 31, 2019, we expect that amortization expense will be as follows (in millions):

2020	$	18.2
2021		18.2
2022		13.8
2023 and thereafter		—
Total	$	50.2

Goodwill and Cable Television Franchise Rights

During 2019 and 2018, there were no changes in the balances of our goodwill and cable television franchise rights.

Based on the results of our 2017 goodwill impairment tests, as further described below and in note 6, declines in the fair value of LCPR resulted in goodwill impairment charges during the third quarter of 2017. These charges represented the full impairment of enterprise level goodwill allocated to LCPR that was maintained at an entity outside of our borrowing group. In addition, as further described below and in note 6, we recognized a $44 million impairment charge to our cable television franchise rights as a result of the Hurricanes.

Impairment Charges Associated with the Hurricanes

In September 2017, our operations were severely impacted by the Hurricanes. Based on our then estimates of the impacts on our operations from the Hurricanes, we recorded impairment charges to reduce the carrying values of our property and equipment and cable television franchise rights as set forth in the table below (in millions). In addition, as a result of the Hurricanes, enterprise level goodwill of $121 million allocated to LCPR was fully impaired during the third quarter of 2017. The enterprise goodwill was recorded at an entity outside of Leo Cable, and accordingly, the impairment did not impact the Leo Cable consolidated financial statements.

Property and equipment	$	50.2
Cable television franchise rights		44.1
Total	$	94.3

For additional information regarding the impacts of the Hurricanes and the fair value methods and related assumptions used in our impairment assessments, see note 6.

(9) Debt

Our debt obligations are as follows:

	December 31, 2019		Estimated fair value (c)		Principal amount	
	Weighted average interest rate (a)	Unused borrowing capacity (b)	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
			in millions			
LPR Senior Secured Notes	6.75%	$ —	$ 1,278.3	$ —	$ 1,200.0	$ —
LPR Credit Facilities (d)	6.76%	125.0	1,012.1	905.4	1,000.0	942.5
Total debt before discounts and deferred financing costs	6.76%	$ 125.0	$ 2,290.4	$ 905.4	$ 2,200.0	$ 942.5

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

	December 31, 2019	December 31, 2018
	in millions	
Total debt before discounts and deferred financing costs	$ 2,200.0	$ 942.5
Discounts and deferred financing costs	(27.0)	(8.8)
Total carrying amount of long-term debt	$ 2,173.0	$ 933.7

(a) Represents the weighted average interest rate in effect at December 31, 2019 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 derivative instruments, deferred financing costs, original issue discounts and commitment fees, all of which affect our overall cost of borrowing.

(b) Unused borrowing capacity represents the maximum availability under the 2019 LPR Revolving Credit Facility (as defined and described below), at December 31, 2019 without regard to covenant compliance calculations or other conditions precedent to borrowing. At December 31, 2019, the full amount of unused borrowing capacity was available to be borrowed under the 2019 LPR Revolving Credit Facility, both before and after completion of the December 31, 2019 compliance reporting requirements.

(c) The estimated fair values of our debt instruments are determined using the average of applicable bid and ask prices (mostly Level 1 of the fair value hierarchy). For additional information regarding fair value hierarchies, see note 6.

(d) For 2019, represents the LPR Credit Facilities, which comprises the 2019 LPR Revolving Credit Facility and the 2026 SPV Credit Facility, each as defined and described below.

General Information—Senior Secured Notes. We have issued senior secured notes. In general, our senior secured notes (i) are senior obligations of each respective issuer within the borrowing group that rank equally with all of the existing and future debt of such issuer and are senior to all existing and future subordinated debt of each respective issuer within the borrowing group, (ii) contain, in most instances, guarantees from other entities of the borrowing group (as specified in the applicable indenture) and (iii) are secured by pledges over the shares of certain entities of the borrowing group and, in certain instances, over substantially all of the assets of those entities. In addition, the indenture governing our senior secured notes contain certain covenants, the more notable of which are as follows:

- Our notes contain certain customary incurrence-based covenants. In addition, our notes provide that any failure to pay principal prior to expiration of any applicable grace period, or any acceleration with respect to other indebtedness of the issuer or certain other members of the borrowing group, over agreed minimum thresholds (as specified under the applicable indenture), is an event of default under the respective notes;

- Our notes contain certain restrictions that, among other things, restrict the ability of the entities of the borrowing group to (i) incur or guarantee certain financial indebtedness, (ii) make certain disposals and acquisitions, (iii) create certain security interests over their assets, in each case, subject to certain customary and agreed exceptions and (iv) make certain restricted payments to its direct and/or indirect parent companies through dividends, loans or other distributions, subject to compliance with applicable covenants; and

- If the relevant issuer or certain of its subsidiaries (as specified in the applicable indenture) sell certain assets, such issuer must offer to repurchase the applicable notes at par, or if a change of control (as specified in the applicable indenture) occurs, such issuer must offer to repurchase all of the relevant notes at a redemption price of 101%.

2027 LPR Senior Secured Notes

In October 2019, LCPR Senior Secured Financing Designated Activity Company (**LCPR Senior Secured Financing**) issued $1.2 billion principal amount, at par, of 6.75% senior secured notes, due October 15, 2027 (the **2027 LPR Senior Secured Notes**). Interest is payable semi-annually on April 15 and October 15, with the first interest payment due on April 15, 2020. LCPR Senior Secured Financing is a special purpose financing entity, created for the primary purpose of facilitating the issuance of certain debt offerings. A subsidiary of LCPR Ventures is required to consolidate LCPR Senior Secured Financing as a result of certain variable interests in LCPR Senior Secured Financing, of which the subsidiary is considered the primary beneficiary.

Subject to the circumstances described below:

- The 2027 LPR Senior Secured Notes are non-callable until October 15, 2022.
- At any time prior to October 15, 2022, LCPR Senior Secured Financing may redeem some or all of the 2027 LPR Senior Secured Notes by paying a price equal to 103.375% of the principal amount of the 2027 LPR Senior Secured Notes redeemed plus accrued and unpaid interest and a "make-whole" premium, which is generally the present value of all remaining scheduled interest payments to October 15, 2022 using the discount rate (as specified in the indenture) as of the redemption date plus 50 basis points.
- At any time prior to October 15, 2022, subject to certain restrictions (as specified in the indenture), up to 40% of the 2027 LPR Senior Secured Notes may be redeemed with the net proceeds of one or more specified equity offerings at a redemption price equal to 106.750% of the principal amount redeemed, plus accrued and unpaid interest and additional amounts (as specified in the indenture), if any, to the redemption date.
- Prior to October 15, 2022, during each 12-month period commencing on October 9, 2019, up to 10% of the principal amount of the 2027 LPR Senior Secured Notes may be redeemed at a redemption price equal to 103% of the principal amount redeemed, plus accrued and unpaid interest and additional amounts (as specified in the indenture), if any, to the redemption date.

On and after October 15, 2022, LCPR Senior Secured Financing may redeem some or all of the 2027 LPR Senior Secured Notes at the following redemption prices (expressed as a percentage of principal amount) plus accrued and unpaid interest and additional amounts (as specified in the indenture), if any, to the applicable redemption date:

	Redemption Price
12-month period commencing October 15:	
2022	103.375%
2023	101.688%
2024 and thereafter	100.000%

In the event that the AT&T Acquisition is not or will not be consummated on or before April 9, 2021 (the **Long-Stop Date**), LCPR Senior Secured Financing will be required to redeem all of the 2027 LPR Senior Secured Notes at a redemption price equal to 100% of the principal amount redeemed, plus accrued and unpaid interest and additional amounts, if any, to the redemption date.

The net proceeds from the 2027 LPR Senior Secured Notes were deposited into escrow (the **SPV Notes Escrowed Proceeds**). The escrow may be released subject to the satisfaction of certain conditions, including the consummation of the AT&T Acquisition. On the escrow release date, the escrowed proceeds, including the SPV Loan Escrowed Proceeds (as defined and described below), will be used to fund one or more loans to a wholly-owned subsidiary of Liberty Latin America. The payment of all obligations under such loans will be guaranteed by LCPR and certain of its affiliates and their respective significant subsidiaries, and all the issued capital stock or share capital of LCPR and each guarantor, and substantially all assets of LCPR and each guarantor will be pledged to secure the payment of such obligations. Such loans and a capital contribution from Liberty Latin America will be used to finance the AT&T Acquisition and to pay related fees and expenses. Until the AT&T Acquisition closes, the cash in escrow from the (i) SPV Notes Escrowed Proceeds and (ii) SPV Loan Escrowed Proceeds, as defined and described below, are included in restricted cash in our consolidated balance sheet.

At December 31, 2019, the carrying value of the 2027 LPR Senior Secured Notes was $1,191 million.

General Information—Credit Facilities. We have entered into credit facility agreements with certain financial institutions. Our credit facilities contain certain covenants, the more notable of which are as follows:

- Our credit facilities contain certain net leverage ratios, as specified in the relevant credit facilities agreements, which are required to be complied with on an incurrence or maintenance basis (as applicable);
- Our credit facilities contain certain restrictions which, among other things, restrict our ability to (i) incur or guarantee certain financial indebtedness, (ii) make certain disposals and acquisitions, (iii) create certain security interests over our assets, in each case, subject to certain customary and agreed exceptions, and (iv) make certain restricted payments to our direct and/or indirect parent companies through dividends, loans or other distributions, subject to compliance with applicable covenants;
- Our credit facilities require us to guarantee the payment of all sums payable under the relevant credit facilities and have first-ranking security granted over the shares in, and substantially all of the assets of, our borrower and guarantor entities, to secure the payment of all sums payable thereunder;
- In addition to certain mandatory prepayment events, the instructing group of lenders under the our credit facilities may cancel the commitments thereunder and declare the loans thereunder due and payable after the applicable notice period following the occurrence of a change of control (as specified in the credit facilities);
- Our credit facilities contain certain customary events of default, the occurrence of which, subject to certain exceptions and materiality qualifications, would allow the instructing group of lenders to (i) cancel the total commitments, (ii) accelerate all outstanding loans and terminate their commitments thereunder and/or (iii) declare that all or part of the loans be payable on demand;
- Our credit facilities require that we observe certain affirmative and negative undertakings and covenants, which are subject to certain materiality qualifications and other customary and agreed exceptions; and
- In addition to customary default provisions, our credit facilities include certain cross-default and cross-acceleration provisions with respect to our other indebtedness, subject to agreed minimum thresholds and other customary and agreed exceptions.

LPR Credit Facilities

The LPR Credit Facilities are the senior secured credit facilities of our company. The details of our borrowings under the LPR Credit Facilities as of December 31, 2019 are summarized in the following table:

LPR Credit Facilities	**Maturity**	**Interest rate**	**Facility amount**	**Unused borrowing capacity**	**Outstanding principal amount**	**Carrying value (a)**
				in millions		
2019 LPR Revolving Credit Facility (b)	October 15, 2025	LIBOR + 3.50%	$ 125.0	$ 125.0	$ —	$ —
2026 SPV Credit Facility	October 15, 2026	LIBOR + 5.0%	$ 1,000.0	—	1,000.0	982.4
Total				$ 125.0	$ 1,000.0	$ 982.4

(a) Amounts are net of discounts and deferred financing costs.

(b) The 2019 LPR Revolving Credit Facility has a fee on unused commitments of 0.5% per year.

Financing Transactions

2026 SPV Credit Facility. In October 2019, LCPR Loan Financing LLC (**LCPR Loan Financing**) entered into a LIBOR plus 5.0% $1.0 billion principal amount term loan facility, issued at 99.0% of par, due October 15, 2026 (the **2026 SPV Credit Facility**). Interest on the 2026 SPV Credit Facility is currently payable monthly. LCPR Loan Financing is a special purpose financing entity, created for the primary purpose of facilitating the issuance of certain term loan debt. LCPR is required to consolidate LCPR Loan Financing as a result of certain variable interests in LCPR Loan Financing, for which LCPR is considered the primary beneficiary.

LCPR Loan Financing used the proceeds from the 2026 SPV Credit Facility to (i) fund a new $947 million term loan (the **LPR Financing Loan**) to LCPR and (ii) deposit $53 million, which will fund a portion of the purchase price associated with the AT&T Acquisition, into escrow (the **SPV Loan Escrowed Proceeds**). The terms and conditions, including maturity and applicable interest rate, for the LPR Financing Loan are the same as those for the 2026 SPV Credit Facility. LCPR Loan Financing's obligations under the 2026 SPV Credit Facility are secured by interests over various assets, as further described in the 2026 SPV Credit Facility agreement.

In the event that the AT&T Acquisition is not or will not be consummated, LCPR Loan Financing will be required to apply the SPV Loan Escrowed Proceeds in partial prepayment of the 2026 SPV Credit Facility, together with accrued and unpaid interest to such date of prepayment. In the event that the AT&T Acquisition is consummated and the purchase price for the AT&T Acquisition is reduced in excess of 10%, LCPR Loan Financing will be required to apply the portion of the SPV Loan Escrowed Proceeds that was not used towards the purchase price of the AT&T Acquisition in partial prepayment of the 2026 SPV Credit Facility, together with accrued and unpaid interest to such date of prepayment.

The net proceeds from the LPR Financing Loan were used to redeem, in full, the $923 million outstanding principal amount of the LPR Bank Facility. This borrowing and repayment activity was treated as a non-cash transaction in our consolidated statement of cash flows. In connection with this transaction, we recognized a loss on debt modification and extinguishment of $7 million, which includes the write-off of unamortized discounts and deferred financing costs.

2019 LPR Revolving Credit Facility. In October 2019, we entered into a LIBOR plus 3.5%, 6-year senior secured credit facility agreement providing for $125 million of revolving commitments (the **2019 LPR Revolving Credit Facility**). The 2019 LPR Revolving Credit Facility has a fee on unused commitments of 0.5%. Upon closing of the 2019 LPR Revolving Credit Facility, the previously existing LPR Revolving Credit Facility was cancelled. In the event that the AT&T Acquisition is not or will not be consummated on or before the Long-Stop Date, the aggregate principal amount available for borrowing under the 2019 LPR Revolving Credit Facility will be reduced by 50 percent.

LPR Bank Facility. During the second quarter of 2019, we repaid $20 million of principal outstanding under the LPR Bank Facility. As noted above, the LPR Bank Facility was fully repaid in the fourth quarter of 2019.

During 2017, we borrowed an additional $85 million under the then existing LPR First Lien Term Loan. The net proceeds were used to prepay $85 million of the outstanding principal amount under the then existing LPR Second Lien Term Loan. This borrowing and repayment activity was treated as a non-cash transaction in our consolidated statement of cash flows. In connection with these transactions, we recognized a loss on debt modification and extinguishment of $3 million related to the write-off of unamortized discounts and deferred financing costs.

Maturities of Debt

As of December 31, 2019, $1,000 million and $1,200 million of our debt matures in 2026 and 2027, respectively.

(10) Leases

The following table provides details of our operating lease expense:

	Year ended December 31, 2019	Year ended December 31, 2018 (a)
	in millions	
Operating lease expense:		
Operating lease cost	$ 1.3	$ 2.5
Short-term lease cost	0.4	—
Total operating lease expense	$ 1.7	$ 2.5

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

The following table provides certain other details of our operating leases at December 31, 2019:

For the year ended December 31, 2019 (in millions):	
Operating cash flows from operating leases	$ 1.3
Right-of-use assets obtained in exchange for new operating lease liabilities (a)	$ 0.3
As of December 31, 2019 (in millions):	
Operating lease right-of-use assets	$ 4.1
Operating lease liabilities:	
Current	$ 0.7
Noncurrent	3.4
Total operating lease liabilities	$ 4.1
Weighted-average remaining lease term	5.2 years
Weighted-average discount rate	9.0%

(a) Represents non-cash transactions associated with operating leases entered into during the year ended December 31, 2019.

Maturities of Operating Leases

Maturities of our operating lease liabilities on an undiscounted basis (in millions) as of December 31, 2019 are presented below along with the current and noncurrent operating lease liabilities on a discounted basis.

Years ending December 31:		
2020	$	1.1
2021		1.0
2022		0.9
2023		0.9
2024		0.9
Thereafter		0.4
Total operating lease liabilities on an undiscounted basis		5.2
Amount representing interest		(1.1)
Present value of operating lease liabilities	$	4.1
Current portion	$	0.7
Noncurrent portion	$	3.4

(11) Income Taxes

Income tax benefit (expense) consists of:

	Year ended December 31,		
	2019	2018	2017
		in millions	
Current tax benefit (expense)	$ (6.1)	$ (5.7)	$ 1.4
Deferred tax benefit - U.S.	0.6	—	43.7
Deferred tax benefit (expense) - Puerto Rico	3.2	(14.0)	43.4
Total income tax benefit (expense)	$ (2.3)	$ (19.7)	$ 88.5

Income tax benefit (expense) attributable to our company's earnings (loss) before income taxes differs from the amounts computed using the applicable income tax rate as a result of the following:

	Year ended December 31,		
	2019	2018	2017
		in millions	
Computed "expected" tax benefit (expense) (a)	$ 1.7	$ (14.5)	$ 36.2
Valuation allowance	(3.5)	—	(1.0)
Change in tax rate (b)	—	(0.1)	47.4
Nontaxable acquisition costs	(0.5)	—	—
Puerto Rico tax benefit (expense)	0.3	(5.3)	5.6
Other, net	(0.3)	0.2	0.3
Total income tax benefit (expense)	$ (2.3)	$ (19.7)	$ 88.5

(a) The statutory or "expected" tax rate is the U.S. Federal rate of 21.0% for both 2019 and 2018 and 35.0% for 2017.

(b) On December 22, 2017, the Tax Cuts and Jobs Act legislation was enacted in the U.S., which permanently reduces the corporate income tax rate to 21% (effective January 1, 2018), among other corporate income tax changes. Substantially all of the impact of this rate change on our U.S. deferred tax balances was recorded during 2017 when the change in tax law was enacted.

Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. The components of our deferred tax assets (liabilities) are as follows:

	December 31, 2019	December 31, 2018
	in millions	
Deferred tax assets	$ 3.1	$ —
Deferred tax liabilities	(137.2)	(137.3)
Net deferred tax liability	$ (134.1)	$ (137.3)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	December 31, 2019	December 31, 2018
	in millions	
Deferred tax assets:		
Net operating losses	$ 9.4	$ 10.2
Foreign tax credit	20.9	20.9
Other future deductible amounts	20.8	13.3
Deferred tax assets	51.1	44.4
Valuation allowance	(24.4)	(20.9)
Deferred tax assets, net of valuation allowance	26.7	23.5
Deferred tax liabilities:		
Investment in subsidiaries	(160.8)	(160.8)
Deferred tax liabilities	(160.8)	(160.8)
Net deferred tax liabilities	$ (134.1)	$ (137.3)

Leo Cable LP is not a separate tax-paying entity for U.S. federal or state income tax purposes. Accordingly, the taxable income of Leo Cable LP is included in the income tax returns of our members. Income taxes reflected in our financial statements relate to the activities of our subsidiaries.

Our subsidiaries file consolidated and/or separate income tax returns and operate in both the United States and Puerto Rico. Our deferred income tax valuation allowance is primarily related to the foreign tax credit at LCPR Ventures resulting from the taxable earnings under Puerto Rico tax law, which is expected to expire before we are able to utilize the credit. We also maintain a valuation allowance against net operating losses and accrued and unpaid interest carryforward attributes in light of recent Puerto Rico tax reform which restricts the ability of corporate partners to utilize stand-alone losses against sources of income derived from underlying partnerships. Our estimate of realization is based on projected earnings (including timing of such earnings) and consideration of any technical limitations on realization.

In the normal course of business, the income tax filings of our subsidiaries are subject to review by various taxing authorities. In connection with such reviews, disputes could arise with the taxing authorities over the interpretation or application of certain income tax rules related to our business in that tax jurisdiction. Such disputes may result in future tax and interest assessments by these taxing authorities. The ultimate resolution of tax contingencies will take place upon the earlier of (i) the settlement date with the applicable taxing authorities in either cash or agreement of income tax positions or (ii) the date when the tax authorities are statutorily prohibited from adjusting the company's tax computations. The tax returns filed by our company for years prior to 2015 are no longer subject to examination by tax authorities. We do not anticipate that any adjustments that might arise from tax authorities' examinations would have a material impact on our consolidated financial position or results of operations.

As of December 31, 2019, our tax loss carryforwards and related tax assets were $20 million and $7 million, respectively, for Puerto Rico purposes. Such tax loss carryforwards expire beginning in the year 2024 through 2027 for Puerto Rico purposes. As of December 31, 2019, our tax loss carryforwards and related tax assets were $9 million and $2 million, respectively, for U.S. purposes. Such tax loss carryforwards expire beginning in the year 2037 for U.S. purposes. For Puerto Rico tax purposes, our alternative minimum tax credits are $15 million, with an indefinite life, and for U.S. federal tax purposes our foreign tax credits are $21 million, however, these foreign tax credits have been fully valued.

(12) Members' Capital

In April 2019, certain B2B operations of C&W in Puerto Rico were transferred to LCPR (the **C&W Transfer**). In connection with the C&W Transfer, we paid C&W $16 million, which is reflected as an investing cash outflow in our consolidated statement of cash flows, representing the estimated fair value of the net assets acquired. We accounted for the C&W Transfer as a transfer of assets under common control, and, as such, the excess consideration paid over the aggregate carrying value of the net assets received has been reflected as a decrease to LiLAC Communications' capital account in our consolidated statement of changes in members' capital.

During 2018, we received a cash contribution from LiLAC Communications of $85 million.

During 2017, we distributed cash of $22 million and $15 million to LiLAC Communications and Searchlight, respectively.

(13) Related-party Transactions

Our related-party transactions are as follows:

	Year ended December 31,		
	2019	2018	2017
		in millions	
Revenue	$ 1.7	$ 1.8	$ 1.0
Programming and other direct costs of services	(5.7)	(4.6)	(4.3)
SG&A (exclusive of share-based compensation)	(0.8)	(0.3)	(0.1)
Allocated share-based compensation expense	(2.2)	(1.2)	(0.7)
Impairment, restructuring and other operating items, net	—	4.7	0.8
Related-party fees and allocations:			
Operating and SG&A related (exclusive of depreciation and share-based compensation)	(5.1)	(2.8)	—
Share-based compensation	(4.0)	(1.4)	—
Management fee	(0.4)	(0.4)	—
Total fees and allocations	(9.5)	(4.6)	—
Included in operating income (loss)	$ (16.5)	$ (4.2)	$ (3.3)

General. We consider Liberty Latin America and its other subsidiaries to be related parties, (collectively, the **Related Parties**). Beginning in the fourth quarter of 2018, certain Liberty Latin America subsidiaries charge fees and allocate costs and expenses to our company based on actual costs incurred. While not invoiced until the fourth quarter of 2018, these charges, as further described below, represent amounts incurred since January 1, 2018. Although we believe the related-party fees and allocations described below are reasonable, no assurance can be given that the related-party costs and expenses reflected in our consolidated statements of operations are reflective of the costs that we would incur on a standalone basis.

Revenue. This amount represents services provided to C&W.

Programming and other direct costs of services. These amounts represent network capacity services provided by C&W.

SG&A. The 2019 amount represents (i) insurance costs allocated to us by a subsidiary of C&W and (ii) various services provided by subsidiaries of Liberty Latin America. The 2018 and 2017 amounts represent various services provided by subsidiaries of Liberty Latin America.

Allocated share-based compensation expense. These amounts represent share-based compensation expense that Liberty Latin America allocated to our company with respect to share-based incentive awards held by certain of our employees, which, prior to 2018 was reflected as an increase to members' capital in our consolidated statements of changes in members' capital. As discussed below, allocated share-based compensation is included in related-party accrued liabilities in our consolidated balance sheet at December 31, 2018.

Impairment, restructuring and other operating items, net. These amounts represent the insurance recoveries that are ultimately the obligation of the Captive. For additional information regarding the insurance settlements resulting from the Hurricanes, including the third-party recoveries, see note 7.

Related-party fees and allocations. The amounts represent fees charged to our company by the Related Parties and are expected to be cash settled. These amounts include charges for management, finance, legal, technology and other corporate and administrative services provided to our company. The categories of our fees and allocations are as follows:

- *Operating and SG&A (exclusive of depreciation and share-based compensation)*. The amount included in this category represents our estimated share of certain centralized technology, management, marketing, finance and other operating and SG&A expenses of the Related Parties' operations, whose activities benefit multiple operations, including operations within and outside of our company. The amount allocated represents our estimated share of the actual costs incurred by the operations of the Related Parties, without a mark-up. Amounts in this category are generally deducted to arrive at our "EBITDA" metric specified by our debt agreements.

- *Share-based compensation.* The amount represents share-based compensation associated with employees of the Related Parties who are not employees of our company. The amount allocated represents our estimated share of the actual costs incurred by the operations of the Related Parties, without a mark-up.

- *Management fee.* The amount included in this category represents our estimated allocable share of the mark-up, if any, applicable to each category of the related-party fees and allocations charged to our company.

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

	December 31, 2019	December 31, 2018
	in millions	
Assets:		
Other assets, net (a)	1.5	1.4
Total assets	$ 1.5	$ 1.4
Liabilities:		
Accounts payable (b)	$ 4.3	$ 4.7
Related-party accrued liabilities (c)	7.7	6.3
Total liabilities	$ 12.0	$ 11.0

(a) The amounts represent various related-party receivables that are expected to be cash settled.

(b) The amounts represent various non-interest bearing related-party payables that are expected to be cash settled.

(c) The amounts primarily represent related-party liabilities associated with (i) related-party fees and allocations and (ii) allocated share based compensation expense. These liabilities are non-interest bearing and will be cash settled.

During 2017, we recorded capital charges of $1 million in our consolidated statement of changes in members' capital in connection with the exercise or release from restriction of Liberty Global plc (**Liberty Global**) share-based incentive awards held by certain of our employees. These charges are 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. Beginning in 2018, capital charges are now included as a component of allocated share-based compensation expense.

(14) Commitments and Contingencies

Commitments

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 $85 million, $69 million and $70 million during 2019, 2018 and 2017, respectively.

We also have commitments under derivative instruments pursuant to which we expect to make payments in future periods. For information regarding our derivative instruments, including the net cash paid or received in connection with these instruments during 2019, 2018 and 2017, see note 5.

Legal and Regulatory Proceedings and Other Contingencies

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

In addition to the foregoing items, we have contingent liabilities related to matters arising in the ordinary course of business including (i) legal proceedings, (ii) issues involving wage, property, withholding and other tax issues and (iii) disputes over interconnection, programming and copyright fees. While we generally expect that the amounts required to satisfy these contingencies will not materially differ from any estimated amounts we have accrued, no assurance can be given that the resolution of one or more of these contingencies will not result in a material impact on our results of operations, cash flows or financial position in any given period. Due, in general, to the complexity of the issues involved and, in certain cases, the lack of a clear basis for predicting outcomes, we cannot provide a meaningful range of potential losses or cash outflows that might result from any unfavorable outcomes.

(15) Revenue by Product

Our revenue by major category is set forth below. As further described in note 2, we adopted ASU 2014-09 effective January 1, 2018 using the cumulative effect transition method. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The adoption of ASU 2014-09 did not have a material impact on our revenue by major category.

	Year ended December 31,		
	2019	2018	2017
		in millions	
Residential fixed revenue:			
Subscription revenue (a):			
Video	$ 140.9	$ 118.9	$ 125.4
Broadband internet	175.0	132.5	124.5
Fixed-line telephony	23.4	18.6	19.9
Total subscription revenue	339.3	270.0	269.8
Non-subscription revenue (b)	21.7	17.4	20.8
Total residential fixed revenue	361.0	287.4	290.6
B2B service revenue (c)	51.1	37.1	29.9
Other revenue (d)	—	11.1	—
Total	$ 412.1	$ 335.6	$ 320.5

(a) Residential fixed subscription revenue includes amounts received from subscribers for ongoing fixed services.

(b) Residential fixed non-subscription revenue primarily includes late fees, advertising revenue and franchise fees.

(c) B2B service revenue primarily includes broadband internet, video and fixed-line telephony and managed services (including equipment installation contracts) offered to small (including small or home office), medium and large enterprises and, on a wholesale basis, to other telecommunication operators.

(d) For the 2018 period, represents funds received from the FCC, which were granted to help restore and improve coverage and service quality from damages caused by the Hurricanes.

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 consolidated financial statements, is intended to assist in providing an understanding of our results of operations and financial condition 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.

- *Results of Operations.* This section provides an analysis of our results of operations for the years ended December 31, 2019 and 2018.

- *Liquidity and Capital Resources.* This section provides an analysis of our liquidity, consolidated statements of cash flows and contractual commitments.

The capitalized terms used below have been defined in the notes to our consolidated financial statements. In the following text, the terms "**we**," "**our**," "**our company**" and "**us**" may refer, as the context requires, to Leo Cable or collectively to Leo Cable and its subsidiaries.

Forward-looking Statements

Certain statements in this annual report constitute forward-looking statements. To the extent that statements in this annual 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 our business, product and finance strategies; our property and equipment additions; subscriber growth and retention rates; changes in competitive, regulatory and economic factors; the timing and impacts of proposed transactions; anticipated changes in our revenue, costs or growth rates; debt levels; our liquidity; credit risks; interest rate risks; compliance with debt, financial and other covenants; our future projected contractual commitments and cash flows; the AT&T Acquisition, including the anticipated closing date; the impact of the novel Coronavirus; and other information and statements that are not historical fact. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. In evaluating these statements, you should consider the following list of some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

- economic and business conditions and industry trends in Puerto Rico, including any adverse impacts that may arise as a result of the high level of Puerto Rico's sovereign debt and the ability of customers in Puerto Rico to pay for our services;

- 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;

- changes in consumer viewing preferences and habits, including on mobile devices that function on various operating systems and specifications, limited bandwidth, and different processing power and screen sizes;

- customer acceptance of our existing service offerings, including our video, broadband internet, fixed-line telephony 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;

- the impact of 5G and wireless technologies;

- our ability to maintain or increase the number of subscriptions to our 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 requires opening 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, such as the AT&T Acquisition;
- our ability to successfully acquire new businesses and, if acquired, to integrate, realize anticipated efficiencies from and implement our business plan with respect to the businesses we have acquired or that we expect to acquire, such as with respect to the AT&T Acquisition;
- 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, including the costs and benefits associated with our network extension and upgrade programs;
- the availability of capital for the acquisition and/or development of telecommunications networks and services, including property and equipment additions;
- problems we may discover post-closing with the operations, including the internal controls and financial reporting process, of businesses we acquire, such as with the AT&T Acquisition;
- piracy, targeted vandalism against our networks, and cybersecurity threats or other security breaches, including the leakage of sensitive customer data, which could harm our business or reputation;
- the loss of key employees and the availability of qualified personnel;
- changes in the nature of key strategic relationships with partners;
- changes in and compliance with applicable data privacy laws, rules, and regulations;
- our ability to recoup insurance reimbursements and settlements from third-party providers; and
- events that are outside of our control, such as political conditions and unrest in international markets, terrorist attacks, malicious human acts, hurricanes and other natural disasters, pandemics, such as the novel Coronavirus, and other similar events.

The broadband distribution industry is changing rapidly and, therefore, the forward-looking statements of expectations, plans and intent in this annual 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 annual report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based. Readers are cautioned not to place undue reliance on any forward-looking statement.

Overview

General

We are a provider of fixed telecommunications services to residential and business customers in Puerto Rico. As further described in note 1 to our consolidated financial statements, we are an indirect wholly-owned subsidiary of Liberty Latin America.

Operations

At December 31, 2019, we owned and operated fixed networks that passed 1,111,000 homes and served 785,100 revenue generating units (**RGUs**), comprising 353,700 broadband internet subscribers, 221,700 video subscribers and 209,700 fixed-line telephony subscribers.

Strategy and Management Focus

From a strategic perspective, we are seeking to build or acquire broadband communications and mobile businesses that have strong prospects for future growth.

We strive to achieve organic revenue and customer growth in our operations by developing and marketing bundled entertainment and information and communications services, and extending and upgrading the quality of our network where appropriate. As we use the term, organic growth excludes the estimated impact of acquisitions and disposals, if any. While we seek to increase our customer base, we also seek to maximize the average revenue we receive from each household by increasing the penetration of our video, broadband internet and fixed-line telephony services with existing customers through product bundling and up-selling.

We are engaged in network extension and upgrade programs. We collectively refer to these network extension and upgrade programs as the "**Network Extensions**." The Network Extensions will be completed in phases with priority given to the most accretive expansion opportunities. During 2019, our network extension and upgrade programs passed over 20,000 homes across our footprint. Depending on a variety of factors, including the financial and operational results of the programs, the Network Extensions may be continued, modified or cancelled at our discretion.

For information regarding our expectation with regard to property and equipment additions as a percent of revenue during 2020, see *Liquidity and Capital Resources—Consolidated Statements of Cash Flows* below.

AT&T Acquisition

On October 9, 2019, we and Liberty Latin America agreed to acquire AT&T's wireless and wireline operations in Puerto Rico and the U.S. Virgin Islands in an all-cash transaction. The AT&T Acquisition is valued at an enterprise value of $1.95 billion on a cash- and debt-free basis, subject to certain adjustments. We intend to finance this acquisition through a combination of net proceeds from the 2026 SPV Credit Facility, the 2027 LPR Senior Secured Notes (each as defined in note 9 to our consolidated financial statements) and available liquidity of Liberty Latin America. In connection with the AT&T Acquisition, we expect to incur significant operating and capital costs to integrate the businesses of AT&T with our existing operations in Puerto Rico.

The AT&T Acquisition is subject to the satisfaction of customary closing conditions, including reviews by the FCC and clearance by the U.S. Department of Justice (the **DOJ**) under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended (the **HSR Act**). On January 10, 2020, we received a request for additional information and documentary materials (a **Second Request**) from the DOJ regarding the AT&T Acquisition. This information request was issued in conjunction with the DOJ's review of the transaction under the HSR Act. Issuance of the Second Request extends the waiting period under the HSR Act until 30 days after both Liberty Latin America and AT&T have substantially complied with the Second Request or such later time as such parties may agree with the DOJ, unless the waiting period is terminated earlier by the DOJ. We intend to respond to the information request as quickly as practicable and will continue to work cooperatively with the DOJ in connection with its review. We still expect the AT&T Acquisition to close in the second quarter of 2020. For additional information regarding the AT&T Acquisition and the terms of the related financing arrangements, see notes 4 and 9, respectively, to our consolidated financial statements.

Competition and Other External Factors

We are experiencing significant competition from other telecommunications, direct-to-home operators and other communication service providers. High levels of sovereign debt in the U.S., combined with weak growth and high unemployment, could potentially lead to fiscal reforms (including austerity measures), tax increases, sovereign debt restructurings, currency instability, increased counterparty credit risk, high levels of volatility and disruptions in the credit and equity markets, as well as other outcomes that might adversely impact our company. The occurrence of any of these events could have an adverse impact on, among other matters, our liquidity and cash flows.

In December 2019, a novel strain of Coronavirus (COVID-19) was reported in Wuhan, China. On March 11, 2020, the World Health Organization declared the outbreak a "pandemic," pointing to the sustained risk of further global spread. The extent of the impact of the novel Coronavirus on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, the impact on our customers and our sales cycles, the impact on our employees, and the effect on our vendors, all of which are uncertain and cannot be predicted. For example, the novel Coronavirus here in Puerto Rico and the countries where our contractors' or vendors' facilities may be located, could have an effect on our financial condition or operations through impacts on our customers' ability to use our services, on the availability of our workforce, or through adverse impacts to our supply chain. As a result of the evolving outbreak, certain of our product shipments may be delayed. If such a disruption were to extend over a prolonged period, it could have an impact on the continuity of our supply chain. Any disruption resulting from similar events on a larger scale or over a prolonged period could cause significant delays in shipments of products until we are able to resume such shipments or shift from the affected contractor or vendor to another third-party vendor, if needed. At this point, the extent to which the novel Coronavirus may impact our financial condition or results of operations is uncertain, but the heightened volatility of global markets expose us to these and related risks and uncertainties.

Products and Services

We offer our residential and business customers a comprehensive set of broadband internet, video and fixed-line telephony services. We believe that our ability to offer our customers greater choice and selection in bundling their services enhances the attractiveness of our service offerings, improves customer retention, minimizes churn and increases overall customer lifetime value.

Video services. Our enhanced video service offerings are delivered on a digital television platform that enables our customers to control when and where they watch their programming. These advanced services are delivered over our hybrid fiber coaxial cable and fiber-to-the-home networks and include a digital video recorder, a video-on-demand (**VoD**) offering and an advanced electronic programming guide. Our services include the Liberty Go app, which extends the advanced video viewing experience to connected devices beyond the set-top box, including mobile phones and tablets. Our video customers can access over 70 applications from content providers to watch streamed linear and VoD programming by authenticating as a customer and our channel offerings include the most relevant content to our subscribers, combining general entertainment, sports, movies, documentaries, lifestyle, news, adult, children and foreign channels, as well as local, regional and international broadcast networks.

Broadband internet services. Our customers are increasingly using online communications. To support our customers' expectations for seamless connectivity, we offer a next generation WiFi and telephony gateway that enables us to maximize the impact of our ultrafast broadband network by providing reliable wireless connectivity throughout the home. This gateway can be self-installed and has an automatic WiFi optimization function, which selects the best possible wireless frequency. Our subscribers generally access the internet at download speeds up to 400 Mbps, depending on the area and tier of service selected. We determine pricing for each different tier of internet service through analysis of speed, market conditions and other factors.

Fixed-line telephony services. We offer multi-feature fixed-line telephony service using voice-over-internet-protocol or "VoIP" technology. Our digital telephony services cover international and domestic services.

Results of Operations

General

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

We are subject to inflationary pressures with respect to certain costs. Any cost increases that we are not able to pass on to our subscribers through rate increases would result in increased pressure on our operating margins.

As further described in note 12 to our consolidated financial statements, certain B2B operations under common control in Puerto Rico were transferred from C&W to LCPR. This did not have a significant impact on our financial results.

Revenue

We derive our revenue primarily from (i) residential fixed services, including video, broadband internet and fixed-line telephony, and (ii) B2B services.

While not specifically discussed in the below explanations of the changes in our revenue, we are experiencing significant competition in our market. This competition has an adverse impact on our ability to increase or maintain our RGUs and/or average monthly subscription revenue per average RGU (**ARPU**).

Variances in the subscription revenue that we receive from our customers are a function of (i) changes in the number of RGUs during the period and (ii) changes in ARPU. Changes in ARPU can be attributable to (i) changes in prices, (ii) changes in bundling or promotional discounts, (iii) changes in the tier of services selected, (iv) variances in subscriber usage patterns and (v) the overall mix of fixed 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. The Hurricanes in 2017 had a significant impact on the variances in our revenue for the comparative periods, as further described below.

Our revenue by major category is set forth below:

	Year ended December 31,		Increase (decrease)	
	2019	2018	$	%
	in millions, except percentages			
Residential fixed revenue:				
Subscription revenue:				
Video	$ 140.9	$ 118.9	$ 22.0	18.5
Broadband internet	175.0	132.5	42.5	32.1
Fixed-line telephony	23.4	18.6	4.8	25.8
Total subscription revenue	339.3	270.0	69.3	25.7
Non-subscription revenue	21.7	17.4	4.3	24.7
Total residential fixed revenue	361.0	287.4	73.6	25.6
B2B service revenue	51.1	37.1	14.0	37.7
Other revenue	—	11.1	(11.1)	(100.0)
Total	$ 412.1	$ 335.6	$ 76.5	22.8

Our revenue increased $77 million during 2019, as compared to 2018. Revenue during 2018 includes $11 million received from the FCC in August 2018, which is included in other revenue. The FCC granted these funds to help restore and improve coverage and service quality from damages caused by the Hurricanes. The increase in revenue also includes $8 million related to the C&W Transfer. Excluding the impact of the FCC funding and the C&W Transfer, the increase is primarily attributable to recovery following the Hurricanes.

Programming and other direct costs of services

Programming and other direct costs of services include programming and copyright costs and other direct costs related to our operations. Programming and copyright costs, which represent a significant portion of our operating costs, may increase in future periods as a result of (i) higher costs associated with the expansion of our digital video content, including rights associated with ancillary product offerings and rights that provide for the broadcast of live sporting events, (ii) rate increases or (iii) growth in the number of our video subscribers.

Our programming and other direct costs of services increased $13 million or 16.9% during 2019, as compared to 2018, primarily related to the following factors:

- An increase in programming and copyright costs of $16 million or 22.2%, mostly attributable to (i) the impact of $11 million in credits received from programming vendors in 2018 resulting from the Hurricanes and (ii) higher programming rates; and

- A decrease in interconnect costs of $2 million or 24.1%, primarily resulting from lower rates.

Other operating expenses

Other operating expenses include (i) network operations, (ii) customer operations, which includes personnel costs and call center costs, (iii) bad debt and collection expenses, and (iv) other costs related to our operations.

Our other operating expenses increased $3 million or 5.0% during 2019, as compared to 2018, primarily due to the following factors:

- An increase in network-related expenses of $3 million or 39.0%, primarily due to (i) an increase in system power expenses, as the 2018 period was impacted by the Hurricanes and (ii) higher CPE repair costs;

- An increase in other various operating expenses of $2 million, as the 2018 period was impacted by the Hurricanes; and

- A decrease in personnel costs of $3 million or 14.8%, mostly driven by the net effect of (i) lower overtime-related personnel activities, as the 2018 period was impacted by the Hurricanes, and (ii) a $1 million hurricane disaster relief credit received during the third quarter of 2018 from the Puerto Rico Treasury Department, representing relief for wages paid to employees during the period of time our business was inoperable as a result of the Hurricanes.

SG&A expenses

SG&A expenses include human resources, information technology, general services, management, finance, legal, sales and marketing costs, share-based compensation and other general expenses.

Our SG&A expenses (exclusive of share-based compensation expense) increased $4 million or 8.3% during 2019, as compared to 2018, primarily attributable to the following factors:

- Higher personnel costs of $2 million or 10.7%, mostly driven by a $1 million hurricane disaster relief credit received during the third quarter of 2018 from the Puerto Rico Treasury Department, representing relief for wages paid to employees during the period of time our business was inoperable as a result of the Hurricanes; and

- An increase in information and technology-related expenses of $2 million or 60.9%, mostly driven by new software services.

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

Our share-based compensation expense primarily includes amounts allocated to our company, as further described in note 13 to our consolidated financial statements. We recognized share-based compensation expense of $2 million and $1 million during 2019 and 2018, respectively.

Business interruption loss recovery

As further described in note 7 to our consolidated financial statements, during 2018, insurance claims associated with the Hurricanes were settled resulting in the recognition of business interruption loss recoveries of $49 million. This benefit to our operating income is included in our OCF performance metric as it represents the recovery of operating losses stemming from the Hurricanes, which were also included in our OCF metric.

Related-party fees and allocations

We recorded related-party fees and allocations of $10 million and $5 million during 2019 and 2018, respectively. These amounts include charges for services provided to our company by Liberty Latin America or subsidiaries of Liberty Latin America. The 2018 amount represents fees charged to our company beginning in the fourth quarter of 2018, but representative of charges incurred since January 1, 2018.

For additional information regarding our related-party fees and allocations, see note 13 to our consolidated financial statements.

Depreciation and amortization expense

Our depreciation and amortization expense decreased $1 million or 0.7% during 2019, as compared to 2018. This decrease is primarily attributable to the net effect of (i) certain assets becoming fully depreciated and (ii) property and equipment additions, largely related to network restoration activities following the Hurricanes.

Impairment, restructuring and other operating items, net

We recognized impairment, restructuring and other operating items, net, of $5 million during 2019, as compared to ($23 million) during 2018. The 2019 amount primarily includes direct acquisition costs related to the AT&T Acquisition. In December 2018, insurance claims for the Hurricanes were settled, as further described in note 7 to our consolidated financial statements, resulting in, among other things, recognizing insurance recoveries of $23 million ($19 million from a third-party and the remainder from the Captive) associated with damaged or destroyed property and equipment.

For additional information regarding our impairment charges, see note 8 to our consolidated financial statements. For additional information regarding the AT&T Acquisition, see note 4 to our consolidated financial statements.

Interest expense – third-party

Our third-party interest expense increased $16 million during 2019, as compared to 2018, primarily due to a higher outstanding debt balance, largely due to borrowings related to the AT&T Acquisition.

For additional information regarding our outstanding third-party indebtedness, see note 9 to our consolidated financial statements. It is possible that the interest rates on (i) any new borrowings could be higher than the current interest rates on our existing indebtedness and (ii) our variable-rate indebtedness could increase in future periods. As further discussed in note 5 to our consolidated financial statements, we use derivative instruments to manage our interest rate risks.

Interest income

We recognized interest income of $3 million during 2019 related to interest earned on the SPV Notes Escrowed Proceeds and the SPV Loan Escrowed Proceeds. For additional information regarding the SPV Notes Escrowed Proceeds and the SPV Loan Escrowed Proceeds, see note 9 to our consolidated financial statements.

Realized and unrealized gains (losses) on derivative instruments, net

Our realized and unrealized gains or losses on derivative instruments include (i) unrealized changes in the fair values of our derivative instruments that are non-cash in nature until such time as the derivative contracts are fully or partially settled and (ii) realized gains or losses upon the full or partial settlement of the derivative contracts. Our realized and unrealized gains (losses) on derivative instruments, net, are as follows:

	Year ended December 31,	
	2019	2018
	in millions	
Interest rate derivative contracts (a)	$ (26.9)	$ 4.0
Other (b)	(1.0)	—
Total	$ (27.9)	$ 4.0

(a) The gains (losses) during 2019 and 2018 primarily relate to changes in market interest rates in the U.S. dollar market. In addition, the loss during 2019 includes a net gain of $2 million resulting from changes in our credit risk valuation adjustments.

(b) The amount for the 2019 includes amortization of the premium associated with our Weather Derivative, which we entered into during the second quarter of 2019.

For additional information regarding our derivative instruments, see notes 5 and 6 to our consolidated financial statements.

Loss on debt modification and extinguishment

We recognized a loss on debt modification and extinguishment of $7 million during 2019 associated with the write-off of unamortized discounts and deferred financing costs.

For additional information regarding our loss on debt modification and extinguishment, see note 9 to our consolidated financial statements.

Other income (expense), net

Our other income (expense), net, was not material during 2019 and 2018.

Income tax benefit (expense)

We recognized income tax expense of $2 million and $20 million during 2019 and 2018, respectively.

The income tax expense attributable to our loss before income taxes during 2019 differs from the expected income tax benefit of $2 million, primarily due to (i) the change in our valuation allowance adjustment and (ii) the tax effect of non-deductible acquisition costs.

The income tax expense attributable to our earnings before income taxes during 2018 differs from the expected income tax expense of $15 million, primarily due to (i) the impact of the change in the Puerto Rico effective tax rate from 39.0% to 37.5% and (ii) the recognition of the prior year return to provision adjustment.

For additional information regarding our income tax benefit (expense), see note 11 to our consolidated financial statements.

Net earnings (loss)

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

	Year ended December 31,	
	2019	2018
	in millions	
Operating income	$ 101.4	$ 127.1
Net non-operating expenses	$ (109.7)	$ (58.2)
Income tax expense	$ (2.3)	$ (19.7)
Net earnings (loss)	$ (10.6)	$ 49.2

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 is largely dependent on our ability to increase our OCF to a level that more than offsets the aggregate amount of our (i) share-based compensation expense, (ii) depreciation and amortization, (iii) related-party fees and allocations, (iv) impairment, restructuring and other operating items, net, (v) interest expense. (vi) other non-operating expenses and (vii) income tax expenses.

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

Liquidity and Capital Resources

Sources and Uses of Cash

We had $50 million of cash and cash equivalents at December 31, 2019. In addition, we had $1,256 million of restricted cash held in escrow that will be used to fund a portion of the AT&T Acquisition. For additional information regarding the AT&T Acquisition and cash held in escrow, see notes 4 and 9, respectively, to our consolidated financial statements.

In addition to cash and cash equivalents, the primary sources of our liquidity are cash provided by operations and borrowing availability under the 2019 LPR Revolving Credit Facility. For the details of the borrowing availability under the 2019 LPR Revolving Credit Facility, see note 9 to our consolidated financial statements. The aforementioned sources of liquidity may be supplemented in certain cases by contributions and/or loans from Liberty Latin America and its unrestricted subsidiaries.

Our liquidity is generally used to fund property and equipment additions, debt service requirements and income tax payments. 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 Liberty Latin America or other equity owners and (iv) satisfaction of contingent liabilities. No assurance can be given that any external funding would be available to us on favorable terms, or at all.

Our liquidity requirements related to acquisitions include funding the AT&T Acquisition. The AT&T Acquisition is structured as an all-cash transaction with a purchase price of $1,950 million, subject to adjustment as provided in the related stock purchase agreement. We intend to finance this acquisition through a combination of a portion of the net proceeds from the 2026 SPV Credit Facility and the 2027 LPR Senior Secured Notes ($1,256 million of which is restricted cash held in escrow) and a portion of Liberty Latin America's available liquidity. For additional information regarding the AT&T Acquisition and the terms of the related financing arrangements, see notes 4 and 9, respectively, to our consolidated financial statements.

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

From time to time, we may, to the extent permitted under applicable law, acquire or repay any debt through open market purchases, privately negotiated transactions, tender offers, exchange offers, redemptions or otherwise, upon such terms and at such prices as we may determine (or as may be provided for in our respective indenture agreements).

In accordance with its credit facility agreements and the 2027 LPR Senior Secured Notes indenture, LCPR has elected that it will satisfy its financial reporting requirements thereunder by delivering consolidated financial statements of Leo Cable, its indirect parent.

Capitalization

For the the year ended December 31, 2019, our consolidated net leverage ratio was 4.5x, as specified in, and calculated in accordance with our credit agreements.

Our ability to service or refinance our debt and to maintain compliance with the leverage covenants in our credit facilities is dependent primarily on our ability to maintain 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 OCF were to decline, our ability to obtain additional debt could be limited. No assurance can be given that we would have sufficient sources of liquidity, or that any extra funding would be available on favorable terms, or at all, to fund any such required repayment. At December 31, 2019, we were in compliance with our debt covenants. We do not anticipate any instances of non-compliance with respect to our debt covenants that would have a material adverse impact on our liquidity during the next 12 months.

At December 31, 2019, the outstanding principal amount of our debt aggregated $2,200 million, of which $1,000 million is due in 2026 and $1,200 million is due in 2027. For additional information concerning our debt, including our debt maturities, see note 9 to our consolidated financial statements.

The weighted average interest rate in effect at December 31, 2019 for all borrowings outstanding pursuant to each debt instrument, including any applicable margin, was 6.8%. The interest rate is based on stated rates and does not include the impact of derivative instruments, deferred financing costs, original issue discounts and commitment fees, all of which affect our overall cost of borrowing. The weighted average impact of the derivative instruments, excluding forward-starting derivative instruments, on our borrowing costs at December 31, 2019 was an increase of 15 basis points. Including the effects of derivative instruments, original issue discounts and commitment fees, but excluding the impact of financing costs, the weighted average interest rate on our indebtedness was 7.0% at December 31, 2019.

Notwithstanding our negative working capital position at December 31, 2019, we believe that we have sufficient resources to fund our foreseeable liquidity requirements during the next 12 months. We may seek to refinance our debt prior to its maturity, and no assurance can be given that we will be able to complete this refinancing. In this regard, it is difficult to predict how political, economic and social conditions, sovereign debt concerns or any adverse regulatory developments will impact the credit markets we access and our future financial position. Our ability to access debt financing on favorable terms, or at all, could be adversely impacted by (i) the financial failure of any of our counterparties, which could (a) reduce amounts available under committed credit facilities and (b) adversely impact our ability to access cash deposited with any failed financial institution, and (ii) tightening of the credit markets. In addition, sustained or increased competition, particularly in combination with adverse economic or regulatory developments, could have an unfavorable impact on our cash flows and liquidity.

Consolidated Statements of Cash Flows

Summary. Our 2019 and 2018 consolidated statements of cash flows are summarized as follows:

	Year ended December 31, 2019	Year ended December 31, 2018	Change
	in millions		
Net cash provided by operating activities	$ 140.1	$ 115.6	$ 24.5
Net cash used by investing activities	(83.5)	(181.8)	98.3
Net cash provided by financing activities	1,229.6	45.0	1,184.6
Net increase (decrease) in cash, cash equivalents and restricted cash	$ 1,286.2	$ (21.2)	$ 1,307.4

Operating Activities. The increase in net cash provided by our operating activities is primarily attributable to the net effect of (i) excluding insurance receipts, an increase from our OCF and related working capital items, (ii) a decrease in cash resulting from insurance as discussed below, (iii) an increase in cash related to derivative instruments, as we received (paid) net amounts of $10 million and ($3 million) during 2019 and 2018, respectively, (iv) higher cash payments for interest and (v) higher cash paid for taxes. During 2019, $18 million of the cash received associated with the final insurance settlement for the Hurricanes was reflected as an operating cash inflow. During 2018, we received net advance payments of $50 million ($45 million from a third-party insurance provider and the remainder from the Captive) associated with the then outstanding insurance settlement claims resulting from the Hurricanes. For additional information regarding our insurance receipts, see note 7 to our consolidated financial statements.

Investing Activities. The decrease in net cash used by our investing activities is attributable to the net effect of (i) lower capital expenditures, (ii) $16 million of cash paid in connection with the C&W Transfer and (iii) a decrease in cash received related to the recovery on damaged or destroyed property and equipment resulting from the Hurricanes. For additional information regarding the C&W Transfer, see note 12 to our consolidated financial statements. For additional information regarding the settlement of our insurance claims associated with the Hurricanes, see note 7 to our consolidated financial statements.

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

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

	Year ended December 31,	
	2019	2018
	in millions	
Property and equipment additions	$ 88.0	$ 161.9
Changes in current liabilities related to capital expenditures	(12.1)	35.6
Capital expenditures	$ 75.9	$ 197.5

The decrease in property and equipment additions during 2019, as compared to 2018, is primarily attributable to the net effect of (i) a decrease of $92 million for network restoration activities following the Hurricanes during the corresponding 2018 period and (ii) an increase in additions for baseline-related assets. During 2019 and 2018, our property and equipment additions represented 21.4% and 48.2% of our revenue, respectively. Our property and equipment additions as a percentage of revenue decreased primarily due to a decline in property and equipment additions together with an increase in revenue following recovery from the Hurricanes.

Financing Activities. During 2019, we received $1,230 million in net cash from financing activities, due to $1,248 million of net borrowings of debt, as further described in note 9 to our consolidated financial statements, which was slightly offset by $18 million related to payments of financing costs. During 2018, we received $45 million in net cash from financing activities, which includes $85 million of cash contributions from LiLAC Communications that were partially offset by a $40 million repayment of debt.

Contractual Commitments

The following table sets forth our commitments as of December 31, 2019:

	Payments due during:						
	2020	2021	2022	2023	2024	Thereafter	Total
				in millions			
Debt (excluding interest)	$ —	$ —	$ —	$ —	$ —	$ 2,200.0	$ 2,200.0
Operating leases	1.1	1.0	0.9	0.9	0.9	0.4	5.2
Total	$ 1.1	$ 1.0	$ 0.9	$ 0.9	$ 0.9	$ 2,200.4	$ 2,205.2
Projected cash interest payments on third-party debt (a)	$ 147.3	$ 148.6	$ 148.6	$ 148.6	$ 148.6	$ 367.0	$ 1,108.7

(a) Amounts are based on interest rates, interest payment dates, commitment fees and contractual maturities in effect as of December 31, 2019. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. In addition, the amounts presented do not include the impact of our derivative contracts.

For information concerning our debt, see note 9 to our consolidated financial statements. For information concerning our operating leases, see note 10 to our consolidated financial statements. For information concerning our commitments, see note 14 to our consolidated financial statements.

In addition to the commitments set forth in the table above, we have commitments under derivative instruments, pursuant to which we expect to make payments in future periods. For information regarding projected cash flows associated with 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 2019, 2018 and 2017, see note 5 to our 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 December 31, 2019. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. For additional information regarding our derivative instruments, including our counterparty credit risk, see note 5 to our consolidated financial statements.

	Payments due during:						
	2020	2021	2022	2023	2024	Thereafter	Total
				in millions			
Interest-related (a)	$ 3.4	$ 14.4	$ 3.0	$ 3.0	$ 3.0	$ 5.1	$ 31.9

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