LIBERTY CABLEVISION OF PUERTO RICO LLC

Condensed Financial Statements
March 31, 2015

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

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LIBERTY CABLEVISION OF PUERTO RICO LLC

CONDENSED BALANCE SHEETS
(unaudited)

	March 31, 2015	December 31, 2014
	in millions	
ASSETS		
Current assets:		
Cash	$ 30.2	$ 21.9
Trade receivables and unbilled revenue, net	10.5	11.2
Prepaid expenses	5.3	4.2
Other current assets (note 8)	15.8	15.7
Total current assets	61.8	53.0
Property and equipment, net (note 5)	275.5	272.9
Goodwill	226.1	226.1
Cable television franchise rights	436.3	436.3
Intangible assets subject to amortization, net (note 5)	68.5	70.7
Other assets, net (note 8)	30.0	30.0
Total assets	$ 1,098.2	$ 1,089.0
LIABILITIES AND MEMBERS' CAPITAL		
Current liabilities:		
Accounts payable (note 8)	$ 7.4	$ 12.9
Third-party accrued interest	9.7	7.6
Deferred revenue and advance payments from subscribers	8.6	8.8
Accrued programming and copyright	7.8	0.9
Accrued capital expenditures	6.6	4.7
Current portion of debt and capital lease obligations (note 6)	0.5	0.5
Other accrued and current liabilities (note 9)	35.8	34.6
Total current liabilities	76.4	70.0
Long-term debt and capital lease obligations (note 6):		
Third-party	672.4	672.5
Related-party (note 8)	16.0	14.5
Other long-term liabilities (note 8)	3.3	4.4
Total liabilities	768.1	761.4
Commitments and contingencies (notes 3, 6, 7, and 10)		
Members' capital (note 7 and 8)	330.1	327.6
Total liabilities and members' capital	$ 1,098.2	$ 1,089.0

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

LIBERTY CABLEVISION OF PUERTO RICO LLC

CONDENSED STATEMENTS OF OPERATIONS
(unaudited)

	Three months ended March 31,	
	2015	2014
	in millions	
Revenue	$ 79.0	$ 74.7
Operating costs and expenses:		
Operating (other than depreciation and amortization)	35.6	34.4
Selling, general and administrative (**SG&A**) (including share-based compensation) (note 8)	10.1	11.1
Depreciation and amortization	15.3	14.0
Impairment, restructuring and other operating items, net (notes 3 and 9)	3.4	0.2
	64.4	59.7
Operating income	14.6	15.0
Non-operating expense:		
Interest expense:		
Third-party	(11.4)	(11.8)
Related-party (note 8)	(0.4)	(0.4)
Other expense	(0.1)	—
	(11.9)	(12.2)
Net earnings	$ 2.7	$ 2.8

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

LIBERTY CABLEVISION OF PUERTO RICO LLC

CONDENSED STATEMENT OF CHANGES IN MEMBERS' CAPITAL
(unaudited)

	Class A preferred units	Class B common units	Total members' capital
		in millions	
Balance at January 1, 2015	$ 244.2	$ 83.4	$ 327.6
Priority Return (note 7)	3.2	(3.2)	—
Net earnings	—	2.7	2.7
Share-based compensation (note 8)	—	0.1	0.1
Capital charge in connection with exercise or release of share-based incentive awards (note 8)	—	(0.3)	(0.3)
Balance at March 31, 2015	$ 247.4	$ 82.7	$ 330.1

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

LIBERTY CABLEVISION OF PUERTO RICO LLC

CONDENSED STATEMENTS OF CASH FLOWS
(unaudited)

	Three months ended March 31,	
	2015	**2014**
	in millions	
Cash flows from operating activities:		
Net earnings	$ 2.7	$ 2.8
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Share-based compensation expense	0.2	0.1
Depreciation and amortization	15.3	14.0
Impairment, restructuring and other operating items, net	3.4	0.2
Amortization of deferred financing costs	0.3	0.3
Changes in operating assets and liabilities	(1.6)	0.8
Net cash provided by operating activities	20.3	18.2
Cash flows from investing activities:		
Capital expenditures	(11.7)	(11.5)
Net cash used by investing activities	(11.7)	(11.5)
Cash flows from financing activities:		
Repayments of third-party debt and capital lease obligations	(0.1)	(7.4)
Other financing activities	(0.2)	0.1
Net cash used by financing activities	(0.3)	(7.3)
Net increase (decrease) in cash	8.3	(0.6)
Cash:		
Beginning of period	21.9	9.5
End of period	$ 30.2	$ 8.9
Cash paid for interest	$ 9.0	$ 11.5

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

(1) Basis of Presentation

Liberty Cablevision of Puerto Rico LLC is a provider of video, broadband internet and fixed-line telephony services in Puerto Rico. Liberty Cablevision of Puerto Rico LLC was formed in connection with a series of transactions with certain investment funds affiliated with Searchlight Capital Partners L.P. (collectively, **Searchlight**) that were completed on November 8, 2012 (the **Puerto Rico Transaction**), including the merger (the **November 2012 Merger**) of the Puerto Rican broadband communications subsidiary (**Old Liberty Puerto Rico**) of LiLAC Holdings, Inc. (**LiLAC Holdings**), formerly known as LGI Broadband Operations, Inc., with San Juan Cable LLC, doing business as OneLink Communications (**OneLink**), also a broadband communications operator in Puerto Rico, with OneLink as the surviving entity. Immediately following the November 2012 Merger, OneLink changed its name to Liberty Cablevision of Puerto Rico LLC (**Liberty Puerto Rico**). LiLAC Holdings indirectly owns a 60.0% controlling interest in Liberty Puerto Rico, with the remaining 40.0% interest indirectly owned by Searchlight. LiLAC Holdings is a wholly-owned subsidiary of Liberty Global plc (**Liberty Global**), an international provider of video, broadband internet, fixed-line telephony and mobile services. In the following text, the terms "we," "our," "our company" and "us" refer to Liberty Puerto Rico or its predecessors, as applicable.

Our unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States (**GAAP**) for interim financial information. Accordingly, these financial statements do not include all of the information required by GAAP for complete financial statements. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the results of operations for the interim periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year. These unaudited condensed financial statements should be read in conjunction with our 2014 financial statements and notes thereto included in our 2014 annual report.

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

These condensed financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through May 28, 2015, the date of issuance.

(2) Recent Accounting Pronouncements

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

(3) Pending Acquisition

On December 9, 2014, together with Searchlight, we entered into an agreement to acquire 100% of the parent of Puerto Rico Cable Acquisition Company Inc., dba Choice Cable TV (**Choice**), the second largest cable and broadband services provider in Puerto Rico (the **Choice Acquisition**). The transaction values Choice at an enterprise value, before transaction costs, of approximately $272.5 million. This purchase price is expected to be funded through (i) $257.5 million of committed facilities under the Liberty Puerto Rico Bank Facility, as defined and described in note 6, and (ii) equity contributions, related-party loans and/or other existing sources of liquidity. The Choice Acquisition is subject to customary closing conditions, including regulatory approvals, and is expected to close in the second quarter of 2015. Upon completion of the Choice Acquisition, Choice's operations will be combined with those of Liberty Puerto Rico, and the combined business will be 60%-owned by our company and 40%-owned by Searchlight. During the three months ended March 31, 2015, we incurred $1.0 million in direct acquisition costs associated with the Choice Acquisition, which are included in impairment, restructuring and other operating items, net, in our condensed statements of operations.

(4) Fair Value Measurements

GAAP provides for a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. We record transfers of assets or liabilities in or out of Levels 1, 2 or 3 at the beginning of the quarter during which the transfer occurred. During the three months ended March 31, 2015, no such transfers were made. In addition, during the three months ended March 31, 2015, we did not perform recurring fair value measurements with respect to any of our assets or liabilities.

Fair value measurements are also used in connection with nonrecurring valuations performed in connection with impairment assessments and acquisition accounting. These nonrecurring valuations include the valuation of intangible assets related to customer relationships and cable television franchise rights, property and equipment and the implied value of goodwill. With the exception of certain inputs for our weighted average cost of capital and discount rate calculations that are derived from pricing services, the inputs used in our discounted cash flow analyses, such as forecasts of future cash flows, are based on our assumptions. The valuations of our customer relationships and cable television franchise rights intangible assets are each primarily based on an excess earnings methodology, which is a form of a discounted cash flow analysis. The excess earnings methodology requires us to estimate the specific cash flows expected from the respective customer relationship and cable television franchise rights intangible assets, considering such factors as estimated customer life, the revenue expected to be generated over the life of the customer or cable television franchise rights, contributory asset charges and other factors. Tangible assets are typically valued using a replacement or reproduction cost approach, considering factors such as current prices of the same or similar equipment, the age of the equipment and economic obsolescence. The implied value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination, with the residual amount allocated to goodwill. Our nonrecurring valuations use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy. We did not perform any material nonrecurring fair value measurements during the three months ended March 31, 2015 and 2014.

(5) Long-lived Assets

Property and Equipment, Net

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

	March 31, 2015	December 31, 2014
	in millions	
Distribution systems	$ 420.9	$ 406.2
Support equipment, buildings and land	34.2	33.1
	455.1	439.3
Accumulated depreciation	(179.6)	(166.4)
Total property and equipment, net	$ 275.5	$ 272.9

During the three months ended March 31, 2015 and 2014, we recorded changes in current liabilities related to capital expenditures of $4.0 million and $2.2 million, respectively.

Intangible Assets Subject to Amortization, Net

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

	March 31, 2015			December 31, 2014		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
	in millions					
Customer relationships	$ 90.0	$ (21.5)	$ 68.5	$ 90.0	$ (19.3)	$ 70.7

(6) Debt and Capital Lease Obligations

Our debt and capital lease obligations are as follows:

	March 31, 2015		Estimated fair value (c)		Carrying value (d)	
	Weighted average interest rate (a)	Unused borrowing capacity (b)	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
	in millions					
Third-party debt – Liberty Puerto Rico Bank Facility (e)	5.2%	$ 40.0	$ 666.7	$ 666.2	$ 672.0	$ 672.0
Related-party debt – Shareholder Loan (f)	10.0%	—	(g)	(g)	16.0	14.5
Total debt	5.3%	$ 40.0			688.0	686.5
Capital lease obligations					0.9	1.0
Total debt and capital lease obligations					688.9	687.5
Current maturities					(0.5)	(0.5)
Long-term debt and capital lease obligations					$ 688.4	$ 687.0

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(a) Represents the weighted average interest rate in effect at March 31, 2015 for all borrowings outstanding pursuant to each debt instrument including any applicable margin. The interest rates presented represent stated rates and do not include the impact of deferred financing costs, original issue premiums or discounts or commitment fees, all of which affect our overall cost of borrowing. Including the effects of original issue discounts and commitment fees, but excluding the impact of financing costs, our weighted average interest rate on our aggregate third-party indebtedness was 5.3% at March 31, 2015.

(b) Unused borrowing capacity represents the maximum availability under our bank credit facility (the **Liberty Puerto Rico Bank Facility**) at March 31, 2015 without regard to covenant compliance calculations or other conditions precedent to borrowing. Based on the applicable leverage and other financial covenants, the full amount of unused borrowing capacity was available to be borrowed under the Liberty Puerto Rico Bank Facility at March 31, 2015. When the relevant March 31, 2015 compliance reporting requirements have been completed, and assuming no changes from the March 31, 2015 borrowing levels, we anticipate the full amount of the Liberty Puerto Rico Bank Facility will continue to be available to be borrowed.

(c) The estimated fair values of our debt instruments were determined using the average of applicable bid and ask prices (mostly Level 1 of the fair value hierarchy). For additional information concerning fair value hierarchies, see note 4.

(d) Amounts include the impacts of discounts or premiums, as applicable.

(e) The Liberty Puerto Rico Bank Facility consists of (i) a first lien term loan with an original principal amount of $530.0 million, (ii) a second lien term loan with an original principal amount of $145.0 million and (iii) a $40.0 million revolving credit facility.

(f) On December 31, 2012, we entered into a loan agreement with LiLAC Holdings (the **Shareholder Loan**). The Shareholder Loan is subordinate in right of payment to the Liberty Puerto Rico Bank Facility. On February 13, 2013, the Shareholder Loan was amended and restated, whereby certain of the Searchlight affiliates provided an irrevocable, absolute and unconditional guarantee to LiLAC Holdings for the repayment of the original advance under the Shareholder Loan, including accrued interest, limited to Searchlight's 40.0% pro rata portion. The Shareholder Loan currently bears interest at 10.0% per annum and has a repayment date of July 7, 2024, or the first anniversary of the latest maturity date of the loans under the Liberty Puerto Rico Bank Facility. Accrued and unpaid interest, if any, is added to the principal of the loan on January 1 of each year. As of March 31, 2015 and December 31, 2014, accrued and unpaid interest on the Shareholder Loan was $0.4 million and $1.5 million, respectively. The increase in the Shareholder Loan during 2015 includes a non-cash transfer of accrued interest of $1.5 million.

(g) The fair value is not subject to reasonable estimation due to the related-party nature of this loan.

Maturities of Debt and Capital Lease Obligations

Maturities of our debt and capital lease obligations as of March 31, 2015 are presented below:

Debt:

	Third-party debt	Shareholder Loan	Total
		in millions	
Years ending December 31:			
2015 (remainder of year) - 2020	$ —	$ —	$ —
Thereafter	675.0	16.0	691.0
Total debt maturities	675.0	16.0	691.0
Unamortized discount	(3.0)	—	(3.0)
Total debt (a)	$ 672.0	$ 16.0	$ 688.0

(a) Amounts are classified as non-current as of March 31, 2015.

Capital lease obligations (in millions):

Year ending December 31:	
2015 (remainder of year)	$ 0.3
2016	0.4
2017	0.3
Total principal and interest payments	1.0
Amounts representing interest	(0.1)
Present value of net minimum lease payments	$ 0.9
Current portion	$ 0.5
Noncurrent portion	$ 0.4

(7) Members' Capital

In accordance with our limited liability company agreement (the **LLC Agreement**), Priority Returns, as defined in the LLC Agreement, have been accrued and recorded quarterly as increases to the Class A Preferred Unit Member capital and decreases to the Class B Common Unit Member capital since November 8, 2012. Accrued Priority Returns will be reflected as a liability when and if declared. The cumulative amount of Priority Returns accrued through March 31, 2015 is $27.1 million.

(8) Related-Party Transactions

Allocated share-based compensation expense. We recognized share-based compensation expense of $0.2 million and $0.1 million during the three months ended March 31, 2015 and 2014, respectively. These amounts include share-based compensation of $0.1 million during each of the three-month periods ended March 31, 2015 and 2014, that Liberty Global allocated to our company with respect to share-based incentive awards held by certain of our employees. The remaining share-based compensation during the three months ended March 31, 2015 relates to a liability-based plan that Liberty Puerto Rico implemented on January 1, 2015. Share-based compensation expense is reflected as an increase to members' capital and is included in SG&A costs in our condensed statements of operations.

Interest expense. We recognized related-party interest expense of $0.4 million during each of the three-month periods ended March 31, 2015 and 2014. These amounts represent interest on the Shareholder Loan. For additional information, see note 6.

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

	March 31, 2015	December 31, 2014
	in millions	
Assets:		
Other current assets (a)	$ 0.9	$ 0.9
Other assets (b)	2.4	2.4
Total	$ 3.3	$ 3.3
Liabilities:		
Accounts payable (c)	$ 1.0	$ 1.0
Debt (d)	16.0	14.5
Other long-term liabilities (e)	0.4	1.5
Total	$ 17.4	$ 17.0

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

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

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

(d) Represents amounts outstanding on our Shareholder Loan. For additional information, see note 6.

(e) Represents accrued and unpaid interest on our Shareholder Loan. For additional information, see note 6.

We recorded aggregate capital charges of $0.3 million during the three months ended March 31, 2015 in our condensed statement of members' capital in connection with the exercise or vesting of Liberty Global share-based incentive awards held by our employees. These capital charges, which generally are cash settled, are based on the fair value of the underlying Liberty Global shares on the exercise or vesting date, as applicable.

(9) Restructuring Liabilities

A summary of changes in our restructuring liabilities during the three months ended March 31, 2015 is set forth in the table below:

	Employee severance and termination	Contract termination and other	Total
		in millions	
Restructuring liability as of December 31, 2014 (a)	$ —	$ 0.2	$ 0.2
Restructuring charges (b)	2.4	—	2.4
Cash paid	(1.1)	—	(1.1)
Restructuring liability as of March 31, 2015 (a)	$ 1.3	$ 0.2	$ 1.5

(a) Our March 31, 2015 and December 31, 2014 restructuring liabilities are included in other accrued and current liabilities in our condensed balance sheets.

(b) Our restructuring charges during the three months ended March 31, 2015 relate to certain reorganization and integration activities.

(10) Commitments and Contingencies

Commitments

In the normal course of business, we have entered into agreements that commit our company to make cash payments in future periods with respect to internet bandwidth commitments. As of March 31, 2015, such commitments are as follows:

	Payments due during:							
	Remainder of 2015	2016	2017	2018	2019	2020	Thereafter	Total
				in millions				
Total commitments (a)	$ 1.3	$ 2.0	$ 2.0	$ 2.0	$ 2.0	$ 2.0	$ 7.9	$ 19.2

(a) The commitments reflected in this table do not reflect any liabilities that are included in our March 31, 2015 condensed balance sheet.

In addition to the commitments set forth in the table above, we have certain commitments under agreements with programming vendors, franchise authorities and municipalities pursuant to which we expect to make payments in future periods. While our programming commitments do not require that we pay any fixed minimum fees, we expect to make significant future payments under these contracts based on the actual number of subscribers to the programming services. In this regard, during the three months ended March 31, 2015 and 2014, we incurred programming and copyright costs of $21.3 million and $20.6 million, respectively.

Commitments arising from acquisition agreements are not reflected in the above table. For information regarding our commitments under acquisition agreements, see note 3.

Legal and Regulatory Proceedings and Other Contingencies

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

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

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

(11) Segment Reporting

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

Our revenue by major category is as follows:

	Three months ended March 31,	
	2015	2014
	in millions	
Cable subscription revenue (a):		
Video	$ 37.8	$ 36.8
Broadband internet	26.4	24.4
Fixed-line telephony	7.5	7.4
Total cable subscription revenue	71.7	68.6
Non-subscription revenue (b)	7.3	6.1
Total revenue	$ 79.0	$ 74.7

(a) Cable subscription revenue includes amounts received from subscribers for ongoing services, excluding late fees, business-to-business (**B2B**) revenue, installation fees and advertising revenue. Cable subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our products or the composition of bundles can contribute to changes in our product revenue categories from period to period.

(b) Non-subscription revenue primarily consists of late fees, B2B revenue, installation fees and advertising revenue.

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

The following discussion and analysis, which should be read in conjunction with our condensed financial statements and the discussion and analysis included in our 2014 annual report, is intended to assist in providing an understanding of our financial condition, changes in financial condition and results of operations and is organized as follows:

- *Forward-Looking Statements.* This section provides a description of certain of the factors that could cause actual results or events to differ materially from anticipated results or events.
- *Overview.* This section provides a general description of our business and recent events.
- *Material Changes in Results of Operations.* This section provides an analysis of our results of operations for the three months ended March 31, 2015 and 2014.
- *Material Changes in Financial Condition.* This section provides an analysis of our liquidity and condensed statements of cash flows.

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

Forward-Looking Statements

Certain statements in this quarterly report constitute forward-looking statements. To the extent that statements in this quarterly report are not recitations of historical fact, such statements constitute forward-looking statements, which, by definition, involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. In particular, statements under *Management's Discussion and Analysis of Financial Condition and Results of Operations* may contain forward-looking statements, including statements regarding the economic environment in Puerto Rico, our business, product, and finance strategies, our property and equipment additions, subscriber growth and retention rates, competitive, regulatory and economic factors, the timing and impacts of proposed transactions, the anticipated impacts of new legislation (or changes to existing rules and regulations), anticipated revenue decreases or cost increases, liquidity, credit risks and target leverage levels. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. In evaluating these statements, you should consider the following list of some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

- economic and business conditions and industry trends in Puerto Rico, including any adverse impacts that may arise as a result of the high level of Puerto Rico's sovereign debt;
- the competitive environment in Puerto Rico, including competitor responses to our products and services;
- fluctuations in interest rates;
- instability in global financial markets, including sovereign debt issues and related fiscal reforms;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt;
- the ultimate outcome of pending or threatened litigation, including the PRTC Claim and the Class Action Claim;
- changes in consumer television viewing preferences and habits;
- consumer acceptance of our existing service offerings, including our enhanced video, broadband internet, fixed-line telephony, and business service offerings, and of new technology, programming alternatives and other products and services that we may offer in the future;
- our ability to manage rapid technological changes;
- our ability to maintain or increase the number of subscriptions to our enhanced video, broadband internet and fixed-line telephony offerings and our average revenue per household;

- our ability to provide satisfactory customer service, including support for new and evolving products and services;
- our ability to maintain or increase rates to our subscribers or to pass through increased costs to our subscribers;
- the impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital;
- changes in, or failure or inability to comply with, government regulations in Puerto Rico and adverse outcomes from regulatory proceedings;
- government intervention that opens our broadband distribution network to competitors;
- our ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions and dispositions and the impact of conditions imposed by competition and other regulatory authorities in connection with acquisitions;
- our ability to successfully acquire new businesses and, if acquired, to integrate, realize anticipated efficiencies from, and implement our business plan with respect to, the businesses we have acquired or may acquire, such as the pending acquisition of Choice;
- changes in laws or treaties relating to taxation, or the interpretation thereof;
- changes in laws and government regulations that may impact the availability and cost of credit;
- the ability of suppliers and vendors to timely deliver quality products, equipment, software, services and access;
- the availability of attractive programming for our enhanced video services and the costs associated with such programming, including retransmission and copyright fees payable to public and private broadcasters;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- our ability to adequately forecast and plan future network requirements;
- the availability of capital for the acquisition and/or development of telecommunications networks and services;
- problems we may discover post-closing with the operations we acquire;
- the leakage of sensitive customer data;
- the loss of key employees and the availability of qualified personnel;
- changes in the nature of key strategic relationships with partners and joint venturers; and
- events that are outside of our control, such as political unrest in international markets, terrorist attacks, malicious human acts, natural disasters, pandemics and other similar events.

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

Overview

We are a provider of video, broadband internet and fixed-line telephony services in Puerto Rico. Liberty Puerto Rico was formed in connection with the Puerto Rico Transaction. LiLAC Holdings indirectly owns a 60.0% controlling interest in Liberty Puerto Rico, with the remaining 40.0% interest indirectly owned by Searchlight. LiLAC Holdings is a wholly-owned subsidiary of Liberty Global, an international provider of video, broadband internet, fixed-line telephony and mobile services.

On December 9, 2014, together with Searchlight, we entered into an agreement to acquire 100% of Choice, the second largest cable and broadband services provider in Puerto Rico. The transaction is subject to customary closing conditions, including regulatory approvals, and is expected to close in the second quarter of 2015. For additional information, see note 3 to our condensed financial statements.

Our revenue includes revenue earned from subscribers for broadband communications services, advertising revenue, late fees and installation fees. We use the term "subscription revenue" in the following discussion to refer to amounts received from subscribers for ongoing services, excluding advertising revenue, late fees and installation fees.

At March 31, 2015, we owned and operated a network that passed 706,900 homes and served 600,900 revenue generating units (**RGU**s), consisting of 220,400 video subscribers, 214,000 broadband internet subscribers and 166,500 telephony subscribers.

We added 10,000 and 17,200 RGUs during the three months ended March 31, 2015 and 2014, respectively. The RGU growth during the three months ended March 31, 2015 is attributable to the growth of our (i) telephony services, which added 5,800 RGUs, (ii) broadband internet services, which added 3,700 RGUs, and (iii) video services, which added 500 RGUs.

We are facing a challenging economic environment in Puerto Rico. This environment could adversely impact our ability to increase, or in certain cases, maintain the revenue, RGUs, operating cash flow and liquidity of our business, particularly if the economic environment were to weaken further. As we use the term, operating cash flow is defined as revenue less operating and SG&A expenses (excluding share-based compensation, depreciation and amortization, provisions and provision releases related to significant litigation and impairment, restructuring and other operating items). Other operating items include (i) gains and losses on the disposition of long-lived assets, (ii) third-party costs directly associated with successful and unsuccessful acquisitions and dispositions, including legal, advisory and due diligence fees, as applicable, and (iii) other acquisition-related items, such as gains and losses on the settlement of contingent consideration.

Material Changes in Results of Operations

Revenue

Our revenue by major category is set forth below:

	Three months ended March 31,		Increase	
	2015	2014	$	%
	in millions			
Subscription revenue (a):				
Video	$ 37.8	$ 36.8	$ 1.0	2.7
Broadband internet	26.4	24.4	2.0	8.2
Fixed-line telephony	7.5	7.4	0.1	1.4
Total subscription revenue	71.7	68.6	3.1	4.5
Non-subscription revenue (b)	7.3	6.1	1.2	19.7
Total revenue	$ 79.0	$ 74.7	$ 4.3	5.8

(a) Cable subscription revenue includes amounts received from subscribers for ongoing services, excluding late fees, B2B revenue, installation fees and advertising revenue. Cable subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our products or the composition of bundles can contribute to changes in our product revenue categories from period to period.

(b) Non-subscription revenue primarily consists of late fees, B2B revenue, installation fees and advertising revenue.

The details of our revenue increase during the three months ended March 31, 2015, as compared to the corresponding period in 2014, is as follows:

	Three-month period		
	Subscription revenue	Non-subscription revenue	Total
		in millions	
Increase (decrease) in subscription revenue due to change in:			
Average number of RGUs (a)	$ 6.2	$ —	$ 6.2
Average monthly subscription revenue per average RGU (**ARPU**) (b)	(3.1)	—	(3.1)
Total increase in subscription revenue	3.1	—	3.1
Increase in non-subscription revenue (c)	—	1.2	1.2
Total	$ 3.1	$ 1.2	$ 4.3

(a) The increase in our subscription revenue related to a change in the average number of RGUs is attributable to increases in the average numbers of fixed-line telephony, broadband internet and enhanced video RGUs.

(b) The decrease in our subscription revenue related to a change in ARPU is largely due to (i) lower ARPU due to the impact of bundling discounts and (ii) lower ARPU from enhanced video services, primarily due to the migration of our customers to lower-priced tiers.

(c) The increase in our non-subscription revenue is largely due to an increase in B2B revenue.

Operating expenses

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

Our total operating expenses increased $1.2 million or 3.5% during the three months ended March 31, 2015, as compared to the corresponding period in 2014. This increase includes the following factors:

- an increase in programming and copyright costs of $0.7 million or 3.3%, primarily due to higher costs related to enhanced video services;
- an increase in access costs of $0.5 million or 24.7%, primarily due to increased costs related to additional capacity agreements with third-party internet providers;

- a decrease in network-related expenses of $0.5 million or 19.3%, primarily due to lower outsourced labor costs associated with customer-facing activities; and

- a net increase resulting from individually insignificant changes in other operating expense categories.

SG&A expenses

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

Our total SG&A expenses (exclusive of share-based compensation expense) decreased $1.1 million or 10.0% during the three months ended March 31, 2015, as compared to the corresponding period in 2014. This decrease includes the following factors:

- a decrease in outsourced labor and professional fees of $1.6 million or 74.2%, primarily due to lower fees associated with legal proceedings; and

- an increase in personnel costs of $0.7 million or 19.9%, primarily due to individually insignificant changes in various personnel cost categories.

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

Our share-based compensation expense of $0.2 million during the three months ended March 31, 2015 remained relatively unchanged, as compared to 2014.

Depreciation and amortization expense

Our depreciation and amortization expense increased $1.3 million or 9.3% during the three months ended March 31, 2015, as compared to the corresponding period in 2014. This increase is primarily attributable to the net effect of (i) an increase associated with property and equipment additions related to the expansion and upgrade of our network, the installation of customer premises equipment and other capital initiatives and (ii) a decrease associated with certain assets becoming fully depreciated.

Impairment, restructuring and other operating items, net

We recognized impairment, restructuring and other operating items, net, of $3.4 million during the three months ended March 31, 2015, as compared to $0.2 million during the corresponding period in 2014. During 2015, these charges are primarily attributable to (i) restructuring charges from employee severance and termination costs related to certain reorganization and integration activities and (ii) direct acquisition costs related to the Choice Acquisition. During 2014, these amounts are primarily attributable to restructuring charges related to the termination of certain contracts and employee severance and termination costs incurred in connection with reorganization activities following the Puerto Rico Transaction.

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

Interest expense – third-party

Our third-party interest expense decreased $0.4 million during the three months ended March 31, 2015, as compared to the corresponding period in 2014. This decrease is primarily attributable to a lower weighted average interest rate resulting from our July 2014 refinancing transaction.

For additional information regarding our outstanding third-party indebtedness, see note 6 to our condensed financial statements.

Interest expense – related-party

Our related-party interest expense of $0.4 million remained unchanged during the three months ended March 31, 2015, as compared to the corresponding period in 2014. For additional information regarding our related-party debt, see note 6 to our condensed financial statements.

Net earnings

During the three months ended March 31, 2015 and 2014, we reported net earnings of $2.7 million and $2.8 million, respectively, including (i) operating income of $14.6 million and $15.0 million, respectively, and (ii) non-operating expense of $11.9 million and $12.2 million, respectively.

Our ability to achieve earnings is largely dependent on our ability to increase our aggregate operating cash flow to a level that more than offsets the aggregate amount of our (i) depreciation and amortization, (ii) interest expense, (iii) impairment, restructuring and other operating items, net, (iv) share-based compensation expense and (v) other net non-operating expenses.

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

Material Changes in Financial Condition

Sources and Uses of Cash

We had $30.2 million of cash at March 31, 2015. In addition to our existing cash, the primary sources of our liquidity are cash provided by operations and borrowings available under the Liberty Puerto Rico Bank Facility. From time to time, our owners may also agree to provide funding to us in the form of subordinated loans or equity contributions.

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

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

Capitalization

Our ability to generate cash from our operations will depend on our future operating performance, which is in turn dependent, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control. Notwithstanding our negative working capital position at March 31, 2015, we believe that our cash, the cash provided from our operations and any available borrowings under the Liberty Puerto Rico Bank Facility will be sufficient to fund our currently anticipated working capital needs, property and equipment additions and debt service requirements during the next 12 months, although no assurance can be given that this will be the case. For additional information regarding available borrowings under the Liberty Puerto Rico Bank Facility, see note 6 to our condensed financial statements. In addition, under certain circumstances, it is possible that LiLAC Holdings would increase the amount loaned to our company pursuant to the Shareholder Loan or a similar arrangement. No assurance can be given that our owners would agree to loan additional amounts to our company on a subordinated basis. As our debt matures, we anticipate that we will seek to refinance or otherwise extend our debt maturities. No assurance can be given that we will be able to complete these refinancing transactions or otherwise extend our debt maturities. In this regard, it is not possible to predict how political and economic conditions, sovereign debt concerns and/or any adverse regulatory developments could impact the credit markets we access and accordingly, our future liquidity and financial position. In addition, sustained or increased competition, particularly in combination with adverse economic or regulatory developments, could have an unfavorable impact on our cash flows and liquidity.

At March 31, 2015, our outstanding third-party debt and capital lease obligations aggregated $672.9 million, including $0.5 million that is classified as current in our condensed balance sheet and $672.0 million that is due in 2022 or thereafter.

Our ability to service or refinance our debt and to maintain compliance with our leverage covenants is dependent primarily on our ability to maintain or increase our operating cash flow 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 agreement. In this regard, if our operating cash flow were to decline, we could be required to repay or limit our borrowings under the Liberty Puerto Rico Bank Facility in order to maintain compliance with applicable covenants. No assurance can be given that we would have sufficient sources of liquidity, or that any funding would be available on favorable terms, or at all, to fund any such required repayment.

Condensed Statements of Cash Flows

Summary. Our condensed statements of cash flows for the three months ended March 31, 2015 and 2014 are summarized as follows:

	Three months ended March 31, 2015	Three months ended March 31, 2014	Change
	in millions		
Net cash provided by operating activities	$ 20.3	$ 18.2	$ 2.1
Net cash used by investing activities	(11.7)	(11.5)	(0.2)
Net cash used by financing activities	(0.3)	(7.3)	7.0
Net increase (decrease) in cash	$ 8.3	$ (0.6)	$ 8.9

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

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

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

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

	Three months ended March 31, 2015	Three months ended March 31, 2014
	in millions	
Property and equipment additions	$ 15.7	$ 13.7
Changes in current liabilities related to capital expenditures	(4.0)	(2.2)
Capital expenditures	$ 11.7	$ 11.5

The increase in property and equipment additions is primarily attributable to the net effect of (i) an increase in expenditures for the purchase and installation of customer premises equipment and (ii) a decrease in expenditures for new build and upgrade projects to expand services.

Financing activities. The decrease in net cash used by our financing activities is primarily due to a decrease in cash used of $7.3 million due to lower net borrowings of third-party debt.

Commitments and Contingencies

For information regarding our commitments and contingencies, see note 10 to our condensed financial statements.