LIBERTY CABLEVISION OF PUERTO RICO LLC

Condensed Financial Statements
September 30, 2014

LIBERTY CABLEVISION OF PUERTO RICO LLC
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San Juan, Puerto Rico
00918-1485

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LIBERTY CABLEVISION OF PUERTO RICO LLC

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LIBERTY CABLEVISION OF PUERTO RICO LLC

CONDENSED BALANCE SHEETS
(unaudited)

	September 30, 2014	December 31, 2013
	in millions	
ASSETS		
Current assets:		
Cash	$ 11.5	$ 9.5
Trade receivables and unbilled revenue, net	9.4	10.7
Prepaid expenses	5.3	2.8
Other current assets (note 8)	18.1	14.3
Total current assets	44.3	37.3
Property and equipment, net (note 5)	280.9	267.3
Goodwill	226.1	226.1
Franchise rights and other	437.6	437.6
Intangible assets subject to amortization, net (note 5)	72.9	80.0
Other assets, net	26.9	26.9
Total assets	$ 1,088.7	$ 1,075.2
LIABILITIES AND MEMBERS' CAPITAL		
Current liabilities:		
Accounts payable (note 8)	$ 9.5	$ 12.4
Accrued capital expenditures	8.7	4.6
Deferred revenue and advance payments from subscribers	8.6	8.9
Accrued interest	8.4	0.4
Current portion of debt and capital lease obligations (note 6)	0.5	5.7
Other accrued and current liabilities (note 8)	35.5	42.0
Total current liabilities	71.2	74.0
Long-term debt and capital lease obligations (note 6):		
Third-party	672.6	660.9
Related-party (note 8)	14.5	13.3
Other long-term liabilities (note 8)	3.0	5.5
Total liabilities	761.3	753.7
Commitments and contingencies (notes 6, 7, 8 and 9)		
Members' capital (note 7 and 8)	327.4	321.5
Total liabilities and members' capital	$ 1,088.7	$ 1,075.2

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 September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
	in millions			
Revenue	$ 76.3	$ 74.7	$ 227.6	$ 221.9
Operating costs and expenses:				
Operating (other than depreciation and amortization)	33.9	35.8	101.4	109.9
Selling, general and administrative (SG&A) (including share-based compensation) (note 8)	9.6	11.8	31.0	35.3
Depreciation and amortization	15.2	14.2	43.8	41.1
Impairment, restructuring and other operating items, net	1.5	2.2	2.0	8.2
	60.2	64.0	178.2	194.5
Operating income	16.1	10.7	49.4	27.4
Non-operating expense:				
Interest expense:				
Third-party	(9.6)	(11.8)	(33.1)	(35.5)
Related-party (note 6 and 8)	(0.3)	(0.3)	(1.0)	(0.8)
Loss on debt modification and extinguishment, net (note 6)	(9.5)	—	(9.5)	—
	(19.4)	(12.1)	(43.6)	(36.3)
Net earnings (loss)	$ (3.3)	$ (1.4)	$ 5.8	$ (8.9)

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, 2014	$ 232.4	$ 89.1	$ 321.5
Priority Return (note 7)	8.8	(8.8)	—
Net earnings	—	5.8	5.8
Share-based compensation expense (note 8)	—	0.3	0.3
Capital charge in connection with exercise or release of share-based incentive awards (note 8)	—	(0.2)	(0.2)
Balance at September 30, 2014	$ 241.2	$ 86.2	$ 327.4

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

LIBERTY CABLEVISION OF PUERTO RICO LLC

CONDENSED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine months ended September 30, 2014	Nine months ended September 30, 2013
	in millions	
Cash flows from operating activities:		
Net earnings (loss)	$ 5.8	$ (8.9)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Share-based compensation expense	0.3	0.3
Depreciation and amortization	43.8	41.1
Loss on debt modification and extinguishment, net	9.5	—
Impairment, restructuring and other operating items, net	2.0	8.2
Amortization of deferred financing costs and non-cash interest accretion	0.8	1.0
Changes in operating assets and liabilities	(6.4)	3.8
Net cash provided by operating activities	55.8	45.5
Cash flows from investing activities:		
Capital expenditures	(48.2)	(40.7)
Other investing activities	—	(0.2)
Net cash used by investing activities	(48.2)	(40.9)
Cash flows from financing activities:		
Borrowings of debt	20.5	—
Repayments of third-party debt and capital lease obligations	(13.0)	(7.4)
Payment of financing costs	(12.9)	(0.8)
Borrowings of related-party debt	—	3.3
Other financing activities	(0.2)	—
Net cash used by financing activities	(5.6)	(4.9)
Net increase (decrease) in cash	2.0	(0.3)
Cash:		
Beginning of period	9.5	2.4
End of period	$ 11.5	$ 2.1
Cash paid for interest	$ 24.3	$ 34.6

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

(1) Basis of Presentation

Liberty Cablevision of Puerto Rico LLC is a broadband communications 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) 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 LGI Broadband Operations, Inc. (LGI Broadband Operations) 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). LGI Broadband Operations indirectly owns a 60.0% controlling interest in Liberty Puerto Rico, with the remaining 40.0% interest indirectly owned by Searchlight. LGI Broadband Operations is a wholly-owned subsidiary of Liberty Global plc (Liberty Global), an international broadband communications 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 2013 financial statements and notes thereto included in our 2013 annual report.

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

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

These condensed financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through November 26, 2014, the date of issuance.

(2) Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace existing revenue recognition guidance in GAAP when it becomes effective on January 1, 2017. Early application is not permitted. This new standard permits the use of either the retrospective or cumulative effect transition method. We are currently evaluating the effect that ASU 2014-09 will have on our 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) Segment Reporting

We operate in one geographical area, the territory of Puerto Rico. We operate in one segment, 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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	in millions			
Subscription revenue (a):				
Video	$ 37.5	$ 37.3	$ 112.3	$ 112.5
Broadband internet	25.1	23.2	74.2	68.8
Fixed-line telephony	7.3	7.6	22.1	22.1
Total subscription revenue	69.9	68.1	208.6	203.4
Non-subscription revenue (b)	6.4	6.6	19.0	18.5
Total revenue	$ 76.3	$ 74.7	$ 227.6	$ 221.9

(a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding late fees, advertising revenue, installation fees and business-to-business (B2B) revenue. 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, advertising revenue, installation fees and B2B revenue.

(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 nine months ended September 30, 2014, no such transfers were made.

Fair value measurements are 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. All of our nonrecurring valuations use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy. With the exception of certain previously-disclosed adjustments to the OneLink acquisition accounting that we made through November 2013, we did not perform any material nonrecurring fair value measurements during the nine months ended September 30, 2014 and 2013.

(5) Long-lived Assets

Property and Equipment, Net

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

	September 30, 2014	December 31, 2013
	in millions	
Distribution systems	$ 397.5	$ 355.8
Support equipment, buildings and land	32.3	26.8
	429.8	382.6
Accumulated depreciation	(148.9)	(115.3)
Total property and equipment, net	$ 280.9	$ 267.3

Intangible Assets Subject to Amortization, Net

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

	September 30, 2014			December 31, 2013		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
	in millions					
Customer relationships	$ 90.0	$ (17.1)	$ 72.9	$ 90.0	$ (10.2)	$ 79.8
Other	0.5	(0.5)	—	0.5	(0.3)	0.2
Total	$ 90.5	$ (17.6)	$ 72.9	$ 90.5	$ (10.5)	$ 80.0

(6) Debt and Capital Lease Obligations

Our debt and capital lease obligations are as follows:

	September 30, 2014		Estimated fair value (c)		Carrying value (d)	
	Weighted average interest rate (a)	Unused borrowing capacity (b)	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
				in millions		
Third-party debt – Liberty Puerto Rico Bank Facility (e)	5.2%	$ 40.0	$ 669.1	$ 666.2	$ 671.9	$ 665.0
Related-party debt – Shareholder Loan (f)	10.0%	—	(g)	(g)	14.5	13.3
Total debt	5.3%	$ 40.0			686.4	678.3
Capital lease obligations					1.2	1.6
Total debt and capital lease obligations					687.6	679.9
Current maturities					(0.5)	(5.7)
Long-term debt and capital lease obligations					$ 687.1	$ 674.2

(a) Represents the weighted average interest rate in effect at September 30, 2014 for all borrowings outstanding pursuant to each debt instrument, including any applicable margin. The interest rates presented represent stated rates and do not include the impact of deferred financing costs, original issue discounts and commitment fees, all of which affect our overall cost of borrowing. Including the effects of original issue discounts and commitment fees, but excluding the impact of financing costs, our weighted average interest rate on our third-party indebtedness was 5.7% at September 30, 2014.

(b) Unused borrowing capacity represents the maximum availability under the New LPR Revolving Loan (as defined below) at September 30, 2014 without regard to covenant compliance calculations or other conditions precedent to borrowing. At September 30, 2014, the full amount of unused borrowing capacity was available to be borrowed under the New LPR Revolving Loan based on the applicable leverage and other financial covenants. When the relevant September 30, 2014 compliance reporting requirements have been completed and, assuming no changes from the September 30, 2014 borrowing levels, we anticipate the full amount of the New LPR Revolving Loan will continue to be available.

(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 on the New LPR Term Loan B and New LPR Term Loan C.

(e) At December 31, 2013, our bank facility (the Liberty Puerto Rico Bank Facility) consisted of (i) a second lien loan with original principal amount of $145.0 million, (ii) a term loan with original principal amount of $345.0 million, (iii) a senior secured term loan with original principal amount of $175.0 million and (iv) a $25.0 million revolving credit facility, of which $10.0 million was outstanding. On July 7, 2014, we entered into (i) a new $530.0 million first lien term loan that matures on January 7, 2022 (the New LPR Term Loan B) and (ii) a new $145.0 million second lien term loan that matures on July 7, 2023 (the New LPR Term Loan C), each under our existing Liberty Puerto Rico Bank Facility. The New LPR Term Loan B and New LPR Term Loan C, each of which were issued at 99.5% of par, bear interest at LIBOR plus 3.50% and LIBOR plus 6.75%, respectively. The net proceeds from these issuances were used to repay all amounts previously outstanding under the Liberty Puerto Rico Bank Facility. Each of the New LPR Term Loan B and New LPR Term Loan C are subject to a LIBOR floor of 1.0%. Also on July 7, 2014, the commitments under our existing revolving credit facility were cancelled and we entered into a new $40.0 million revolving credit facility (the New LPR Revolving Loan). The New LPR Revolving Loan, which matures on July 7, 2020 and bears interest at LIBOR plus 3.50%, has a fee on unused commitments of 0.50% or 0.375% depending on the Consolidated Total Net Leverage Ratio (as defined in the Liberty Puerto Rico Bank Facility). In connection with the above transactions, we recognized a loss on debt modification and extinguishment, net, of $9.5 million, including (a) $10.4 million associated with third-party costs and the write-off of deferred financing costs and (b) the write-off of $0.9 million of unamortized premium.

(f) On December 31, 2012, we entered into a loan agreement with LGI Broadband Operations (the Shareholder Loan). The Shareholder Loan is subordinate in right of payment to the Liberty Puerto Rico Bank Facility. The Shareholder Loan currently bears interest at 10.0% per annum and has a repayment date on the first anniversary of the latest maturity date of the loans under the Liberty Puerto Rico Bank Facility. If such amount is not paid by the maturity date, the accrued and unpaid interest is added to the principal of the loan on January 1 of each year. As of September 30, 2014 and December 31, 2013, accrued and unpaid interest on the Shareholder Loan was $1.0 million and $1.2 million, respectively. The increase in the Shareholder Loan during 2014 includes a non-cash transfer of accrued interest of $1.2 million.

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

Maturities of Debt and Capital Lease Obligations

Maturities of our debt and capital lease obligations as of September 30, 2014 are presented below:

Debt:

	Third-party debt	Shareholder Loan	Total
		in millions	
Year ending December 31:			
2014 - 2018	$ —	$ —	$ —
2019	—	14.5	14.5
Thereafter	675.0	—	675.0
Total debt maturities	675.0	14.5	689.5
Unamortized discount	(3.1)	—	(3.1)
Total debt	$ 671.9	$ 14.5	$ 686.4
Current portion	$ —	$ —	$ —
Noncurrent portion	$ 671.9	$ 14.5	$ 686.4

Capital lease obligations (in millions):

Year ending December 31:	
2014 (remainder of year)	$ 0.1
2015	0.5
2016	0.4
2017	0.3
Total principal and interest payments	1.3
Amounts representing interest	(0.1)
Present value of net minimum lease payments	$ 1.2
Current portion	$ 0.5
Noncurrent portion	$ 0.7

Non-cash Refinancing Transactions

During the nine months ended September 30, 2014, our refinancing transaction included non-cash borrowings and repayments of debt aggregating $651.2 million.

(7) Members' Capital

In accordance with our limited liability company agreement, an $8.8 million Priority Return, as defined in our limited liability company agreement, was accrued and recorded as an increase to Class A Preferred Unit Member capital and a decrease to Class B Common Unit Member capital during the nine months ended September 30, 2014. Such Priority Return will be reflected as a liability when and if declared.

(8) Related-Party Transactions

Allocated share-based compensation expense. Share-based compensation amounts representing the Liberty Global share-based incentive awards held by certain of our employees are allocated to our company by Liberty Global. Awards consist of (i) stock appreciation rights (SARs) and (ii) restricted share units. Share-based compensation expense is reflected as an increase to members' equity and is included in SG&A costs in our condensed statements of operations.

Interest expense. Represents interest on the Shareholder Loan. For additional information, see note 6.

	September 30, 2014	December 31, 2013
	in millions	
Other current assets (a)	$ 3.3	$ 1.7
Accounts payable – related-party (b)	$ 0.4	$ 0.2
Other accrued and current liabilities (c)	1.0	—
Related-party debt (d)	14.5	13.3
Other long-term liabilities (c)	—	1.2
Total	$ 15.9	$ 14.7

(a) Represents various related-party receivables, including $2.4 million and $0.9 million, respectively, in estimated income tax payments paid on behalf of our parent company, LCPR Cayman Holding Inc. (Cayman Holding). Cayman Holding, who owns a 60.0% controlling financial interest in Liberty Puerto Rico, is a pass-through entity for U.S. federal income tax purposes, but is treated as a corporation for income tax purposes in the Puerto Rico jurisdiction. On a quarterly basis, we make estimated tax payments on behalf of Cayman Holding. The resulting receivables will be cash or loan settled at the discretion of Leo Cable LLC, the parent company of Cayman Holding.

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

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

(d) Represents amounts outstanding on our Shareholder Loan due to LGI Broadband Operations. For additional information, see note 6.

We recorded aggregate capital charges of $0.2 million during each of the nine months ended September 30, 2014 and 2013 in our condensed statement of members' capital in connection with the exercise of Liberty Global SARs and the vesting of Liberty Global restricted share 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) 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. As of September 30, 2014, such commitments are as follows:

	Payments due during:							
	Remainder of 2014	2015	2016	2017	2018	2019	Thereafter	Total
	in millions							
Total commitments (a).....	$ 0.3	$ 1.2	$ 1.2	$ 1.2	$ 1.2	$ 1.2	$ 5.7	$ 12.0

(a) The commitments reflected in this table do not reflect any liabilities that are included in our September 30, 2014 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 nine months ended September 30, 2014 and 2013, we incurred programming and copyright costs of $60.8 million and $62.7 million, respectively.

Legal and Regulatory Proceedings and Other Contingencies

PRTC and Class Action Claims. In connection with the Puerto Rico Transaction, Liberty Puerto Rico became a party to certain claims asserted by the incumbent telephone operator against OneLink based on alleged conduct of OneLink that occurred prior to the OneLink acquisition (the PRTC Claim), including a claim 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 December 2013, an additional claim was asserted against OneLink alleging harm to consumers based on the purported conduct of OneLink that formed the basis for the PRTC Claim. The claimant in the December 2013 action sought to join the PRTC Claim as a representative of the entire class of consumers who are alleged to have suffered harm as a result of the purported OneLink conduct. In February 2014, the court ruled that the December 2013 action could not be joined with the PRTC Claim. The court ruling did not preclude the claimant from pursuing a class action claim in a separate action. In March 2014, the claimant in the December 2013 claim filed a separate class action claim in Puerto Rico (the "Class Action Claim") substantially similar to the claims asserted in the December 2013 claim. 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. Our balance sheet includes 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.

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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 2013 annual report, is intended to assist in providing an understanding of our financial condition, changes in financial condition and results of operations and is organized as follows:

- *Forward-Looking Statements.* This section provides a description of certain 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, our product offerings and recent events.
- *Material Changes in Results of Operations.* This section provides an analysis of our results of operations for the three and nine months ended September 30, 2014 and 2013.
- *Material Changes in Financial Condition.* This section provides an analysis of our liquidity 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 our expectations with respect to our growth prospects, 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 maturity of our markets, the anticipated impacts of new legislation (or changes to existing rules and regulations), anticipated revenue decreases or cost increases, liquidity, credit risks and target leverage levels. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. In evaluating these statements, you should consider the risks and uncertainties in the following list of some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

- economic and business conditions and industry trends in Puerto Rico;
- 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 television viewing preferences and habits;
- consumer acceptance of our existing service offerings, including our digital video, broadband internet, fixed-line telephony, and business service offerings, and of new technology, programming alternatives and other products and services that we may offer in the future;
- our ability to manage rapid technological changes;
- our ability to maintain or increase the number of subscriptions to our digital video, broadband internet and fixed-line telephony offerings and our average revenue per household;
- our ability to provide satisfactory customer service, including support for new and evolving products and services;

- our ability to maintain or increase rates to our subscribers or to pass through increased costs to our subscribers;
- the impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital;
- changes in, or failure or inability to comply with, government regulations in Puerto Rico and adverse outcomes from regulatory proceedings;
- government intervention that opens our broadband distribution network to competitors;
- our ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions and dispositions and the impact of conditions imposed by competition and other regulatory authorities in connection with acquisitions;
- our ability to successfully acquire new businesses and, if acquired, to integrate, realize anticipated efficiencies from, and implement our business plan with respect to, the businesses we acquire;
- change in laws or treaties relating to taxation, or the interpretation thereof, in the United States (U.S.) or Puerto Rico;
- changes in laws and government regulations that may impact the availability and cost of credit and the derivative instruments that we may use to hedge certain of our financial risks;
- the ability of suppliers and vendors to timely deliver quality products, equipment, software and services;
- the availability of attractive programming for our digital video services and the costs associated with such programming, including retransmission and copyright fees payable to public and private broadcasters;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- our ability to adequately forecast and plan future network requirements;
- the availability of capital for the acquisition and/or development of telecommunications networks and services;
- problems we may discover post-closing with the operations, including the internal controls and financial reporting process, of businesses we acquire;
- leakage of sensitive customer data;
- the outcome of any pending or threatened litigation;
- the loss of key employees and the availability of qualified personnel;
- changes in the nature of key strategic relationships; and
- events that are outside of our control, such as political unrest, 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

Liberty Puerto Rico is 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. LGI Broadband Operations indirectly owns a 60.0% controlling interest in Liberty Puerto Rico, with the remaining 40.0% interest owned by Searchlight. LGI Broadband Operations is an indirect wholly-owned subsidiary of Liberty Global, an international broadband communications provider of video, broadband internet, fixed-line telephony and mobile services.

For additional information, see note 1 to our condensed financial statements.

At September 30, 2014, we owned and operated a network that passed 705,600 homes and served 577,400 revenue generating units (RGUs), consisting of 217,900 video subscribers, 205,300 broadband internet subscribers and 154,200 telephony subscribers.

We added 15,500 and 13,300 RGUs during the three months ended September 30, 2014 and 2013, respectively, and 41,600 and 39,900 RGUs during the nine months ended September 30, 2014 and 2013, respectively. The RGU growth during the three and nine months ended September 30, 2014 is attributable to the growth of our (i) telephony services, which added 7,100 and 21,100 RGUs, respectively, (ii) broadband internet services, which added 5,900 and 13,100 RGUs, respectively, and (iii) video services, which added 2,500 and 7,400 RGUs, respectively.

We are facing challenging economic conditions in Puerto Rico, including high levels of unemployment and national debt and a declining gross national product. These factors, taken together with increasing competition, may adversely impact our ability to increase or maintain our RGUs, revenue, 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 and impairment, restructuring and other operating items). Other operating items include (a) gains and losses on the disposition of long-lived assets, (b) third-party costs directly associated with successful and unsuccessful acquisitions and dispositions, including legal, advisory and due diligence fees, as applicable, and (c) 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 September 30,		Increase (decrease)	
	2014	2013	$	%
	in millions			
Subscription revenue (a):				
Video	$ 37.5	$ 37.3	$ 0.2	0.5
Broadband internet	25.1	23.2	1.9	8.2
Fixed-line telephony	7.3	7.6	(0.3)	(3.9)
Total subscription revenue	69.9	68.1	1.8	2.6
Non-subscription revenue (b)	6.4	6.6	(0.2)	(3.0)
Total revenue	$ 76.3	$ 74.7	$ 1.6	2.1

	Nine months ended September 30,		Increase (decrease)	
	2014	2013	$	%
	in millions			
Subscription revenue (a):				
Video	$ 112.3	$ 112.5	$ (0.2)	(0.2)
Broadband internet	74.2	68.8	5.4	7.8
Fixed-line telephony	22.1	22.1	—	—
Total subscription revenue	208.6	203.4	5.2	2.6
Non-subscription revenue (b)	19.0	18.5	0.5	2.7
Total revenue	$ 227.6	$ 221.9	$ 5.7	2.6

(a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding late fees, advertising revenue, installation fees and B2B revenue. 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, advertising revenue, installation fees and B2B revenue.

The details of our revenue increases during the three and nine months ended September 30, 2014, as compared to the corresponding periods in 2013, are as follows:

	Three-month period			Nine-month period		
	Subscription revenue	Non-subscription revenue	Total	Subscription revenue	Non-subscription revenue	Total
	in millions					
Increase (decrease) in subscription revenue due to change in:						
Average number of RGUs (a)	$ 7.0	$ —	$ 7.0	$ 21.7	$ —	$ 21.7
Average monthly subscription revenue per average RGU (ARPU) (b)	(5.2)	—	(5.2)	(16.5)	—	(16.5)
Total increase in subscription revenue	1.8	—	1.8	5.2	—	5.2
Increase (decrease) in non-subscription revenue	—	(0.2)	(0.2)	—	0.5	0.5
Total organic increase (decrease)	$ 1.8	$ (0.2)	$ 1.6	$ 5.2	$ 0.5	$ 5.7

(a) The increases in our subscription revenue related to changes in the average number of RGUs are attributable to increases in the average numbers of fixed-line telephony, broadband internet and digital cable RGUs.

(b) The decreases in our subscription revenue related to changes in ARPU are due to (i) lower ARPU due to the impact of bundling discounts and (ii) lower ARPU from digital cable services primarily due to the migration of our customers to lower priced tiers, including Spanish tiers.

Operating expenses

Operating expenses include programming and copyright, network operations, interconnect, 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) rate increases, (ii) growth in the number of our digital video subscribers and (iii) 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. 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.

Total operating expenses decreased $1.9 million or 5.3% and $8.5 million or 7.7% during the three and nine months ended September 30, 2014, respectively, as compared to the corresponding periods in 2013. These decreases are primarily due to the net effect of (i) decreases in network access costs, as we migrated certain of our telephony customers from a third-party network to our network, (ii) decreases in outsourced labor and professional fees, (iii) decreases in bad debt and collection expense, (iv) a decrease during the nine-month period and an increase during the three-month period in personnel costs, and (v) increases in facilities expense.

SG&A expenses

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

Our total SG&A expenses decreased $2.2 million or 18.6% and $4.3 million or 12.2% during the three and nine months ended September 30, 2014, respectively, as compared to the corresponding periods in 2013. These decreases are primarily due to the net effect of (i) a decrease during the nine-month period in outsourced labor and professional fees, primarily associated with legal proceedings, and (ii) increases in costs associated with a new national gross receipts tax implemented in Puerto Rico during the second quarter of 2014.

Depreciation and amortization expense

Our depreciation and amortization expense increased $1.0 million or 7.0% and $2.7 million or 6.6% during the three and nine months ended September 30, 2014, respectively, as compared to the corresponding periods in 2013. These increases are primarily attributable to the net effect of (i) increases associated with property and equipment additions related to the expansion and upgrade of our network, the installation of customer premises equipment and other capital initiatives, and (ii) decreases associated with certain assets becoming fully depreciated.

Impairment, restructuring and other operating items, net

We recognized impairment, restructuring and other operating items, net, of $1.5 million and $2.2 million during the three months ended September 30, 2014 and 2013, respectively, and $2.0 million and $8.2 million during the nine months ended September 30, 2014 and 2013, respectively. The 2014 amounts are primarily attributable to direct acquisition costs and the 2013 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 and integration 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 $2.2 million and $2.4 million during the three and nine months ended September 30, 2014, respectively, as compared to the corresponding periods in 2013. The decreases are primarily attributable to a lower weighted average interest rate. For additional information regarding our outstanding indebtedness, see note 6 to our condensed financial statements.

Interest expense – related-party

Our related-party interest expense remained relatively unchanged during the three and nine months ended September 30, 2014, as compared to the corresponding periods in 2013. For additional information regarding our related-party debt, see note 6 to our condensed financial statements.

Loss on debt modification and extinguishment, net

We recognized a loss on debt modification and extinguishment of $9.5 million during the three and nine months ended September 30, 2014, respectively. The loss during the 2014 period includes (a) $10.4 million associated with third-party costs and the write-off of deferred financing costs and (b) the write-off of $0.9 million of unamortized premium. During 2013, we did not recognize any losses on debt extinguishment.

Net earnings (loss)

During the three months ended September 30, 2014 and 2013, we reported net losses of ($3.3 million) and ($1.4 million), respectively, including (i) operating income of $16.1 million and $10.7 million, respectively, and (ii) non-operating expense of $19.4 million and $12.1 million, respectively.

During the nine months ended September 30, 2014 and 2013, we reported net earnings (loss) of $5.8 million and ($8.9 million), respectively, including (i) operating income of $49.4 million and $27.4 million, respectively, and (ii) non-operating expense of $43.6 million and $36.3 million, respectively.

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

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 $11.5 million of cash at September 30, 2014. In addition to our existing cash, the primary sources of our liquidity are cash provided by operations and available borrowings under the New LPR Revolving Loan. From time to time, our members may also agree to provide funding to our company in the form of subordinated debt or equity contributions.

Our liquidity generally is 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 outstanding debt, (ii) acquisitions and other investment opportunities and (iii) satisfaction of contingencies.

For additional information regarding our capital expenditures and cash provided by operating activities, 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. We believe that our cash, the cash provided from our operations and any available borrowings under the New LPR Revolving Loan will be sufficient to fund our currently anticipated working capital needs (taking into account our working capital deficit at September 30, 2014), 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 New LPR Revolving Loan, see note 6 to our condensed financial statements. In addition, under certain circumstances, it is possible that LGI Broadband Operations would agree to increase the amount loaned to our company pursuant to the Shareholder Loan or a similar arrangement. No assurance can be given that LGI Broadband Operations would agree to loan additional amounts to our company on a subordinated basis. As our debt matures in later years, we anticipate that we will seek to refinance or otherwise extend our debt maturities. No assurance can be given that we will be able to complete these refinancing transactions or otherwise extend our debt maturities. In this regard, it is not possible to predict how political and economic conditions, sovereign debt concerns 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 September 30, 2014, our outstanding third-party debt and capital lease obligations aggregated $673.1 million, including $0.5 million that is classified as current in our condensed balance sheet and $671.9 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. 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.

For information regarding the refinancing of the Liberty Puerto Rico Bank Facility that we completed in July 2014, see note 6 to our condensed financial statements.

Condensed Statements of Cash Flows

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

	Nine months ended September 30,		
	2014	2013	Change
		in millions	
Net cash provided by operating activities	$ 55.8	$ 45.5	$ 10.3
Net cash used by investing activities	(48.2)	(40.9)	(7.3)
Net cash used by financing activities	(5.6)	(4.9)	(0.7)
Net increase (decrease) in cash	$ 2.0	$ (0.3)	$ 2.3

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

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 present (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 changes in current liabilities associated with capital expenditures and any amounts that are financed under capital lease arrangements.

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

	Nine months ended September 30, 2014	Nine months ended September 30, 2013
	in millions	
Property and equipment additions	$ 50.4	$ 53.5
Changes in current liabilities related to capital expenditures	(2.2)	(11.6)
Assets acquired under capital leases	—	(1.2)
Capital expenditures	$ 48.2	$ 40.7

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

Financing activities. The increase in net cash used by our financing activities is primarily due to the net effect of (i) a decrease in cash used of $14.9 million due to higher net borrowings of third-party debt and (ii) an increase in cash used of $12.1 million due to higher payments for financing costs.

Commitments and Contingencies

For information regarding our commitments and contingencies, see note 9 to our condensed financial statements.