



**LIBERTY CABLEVISION
OF PUERTO RICO LLC**

**Condensed Consolidated Financial Statements
June 30, 2017**

LIBERTY CABLEVISION OF PUERTO RICO LLC

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San Juan, Puerto Rico
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LIBERTY CABLEVISION OF PUERTO RICO LLC
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LIBERTY CABLEVISION OF PUERTO RICO LLC
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	June 30, 2017	December 31, 2016
	in millions	
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 50.0	\$ 78.5
Trade receivables and unbilled revenue, net.....	17.2	16.4
Prepaid expenses.....	7.5	5.1
Other current assets.....	1.8	2.9
Total current assets.....	76.5	102.9
Property and equipment, net (note 5).....	403.2	391.4
Goodwill.....	277.7	277.7
Cable television franchise rights.....	584.1	584.1
Customer relationships, net (note 5).....	95.0	102.4
Other assets, net (notes 3 and 8).....	4.1	8.0
Total assets.....	\$ 1,440.6	\$ 1,466.5
LIABILITIES AND MEMBERS' CAPITAL		
Current liabilities:		
Accounts payable (note 8).....	\$ 18.7	\$ 17.9
Accrued capital expenditures.....	17.8	19.7
Deferred revenue and advance payments from subscribers.....	11.7	12.3
Third-party accrued interest.....	9.5	10.6
Derivative instruments (note 3).....	6.7	8.9
Current portion of debt and capital lease obligations (note 6).....	—	0.2
Other current liabilities.....	17.5	22.2
Total current liabilities.....	81.9	91.8
Long-term debt and capital lease obligations (note 6).....	929.9	927.2
Other long-term liabilities (note 3).....	10.5	10.2
Total liabilities.....	1,022.3	1,029.2
Commitments and contingencies (notes 3, 6, 7 and 9)		
Members' capital:		
Members' capital (notes 7 and 8).....	474.0	505.3
Cayman Holding Loan Receivable (notes 7 and 8).....	(55.7)	(68.0)
Members' capital after deducting loan receivable from member.....	418.3	437.3
Total liabilities and members' capital.....	\$ 1,440.6	\$ 1,466.5

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

LIBERTY CABLEVISION OF PUERTO RICO LLC
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	in millions			
Revenue (note 10)	\$ 108.3	\$ 106.9	\$ 215.0	\$ 210.8
Operating costs and expenses (exclusive of depreciation and amortization, shown separately below):				
Programming and other direct costs of services (note 8)	27.0	29.2	54.6	58.6
Other operating	14.9	14.2	30.3	30.3
Selling, general and administrative (SG&A) (note 8)	12.9	14.4	26.0	26.4
Depreciation and amortization	20.8	20.9	41.3	41.9
Impairment, restructuring and other operating items, net	—	0.6	—	1.1
	<u>75.6</u>	<u>79.3</u>	<u>152.2</u>	<u>158.3</u>
Operating income	<u>32.7</u>	<u>27.6</u>	<u>62.8</u>	<u>52.5</u>
Non-operating expense:				
Interest expense:				
Third-party	(12.3)	(12.8)	(24.8)	(25.7)
Related-party (note 8)	—	(0.2)	—	(0.6)
Realized and unrealized losses on derivative instruments, net (note 3)	(6.9)	(9.0)	(6.8)	(28.2)
Other expense, net	(2.5)	—	(2.6)	—
	<u>(21.7)</u>	<u>(22.0)</u>	<u>(34.2)</u>	<u>(54.5)</u>
Net earnings (loss)	<u>\$ 11.0</u>	<u>\$ 5.6</u>	<u>\$ 28.6</u>	<u>\$ (2.0)</u>

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

LIBERTY CABLEVISION OF PUERTO RICO LLC
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' CAPITAL
(unaudited)

	<u>Class A preferred units</u>	<u>Class B common units</u>	<u>Total members' capital</u>	<u>Cayman Holding Loan Receivable</u>	<u>Members' capital after deducting loan receivable from member</u>
	in millions				
Balance at January 1, 2017	\$ 236.4	\$ 268.9	\$ 505.3	\$ (68.0)	\$ 437.3
Net earnings	—	28.6	28.6	—	28.6
Priority Return (note 7)	6.1	(6.1)	—	—	—
Distributions to members (note 7)	(28.7)	(37.2)	(65.9)	—	(65.9)
Payments received on the Cayman Holding Loan Receivable (note 7)	—	—	—	12.3	12.3
Contribution from member (note 7)	—	6.3	6.3	—	6.3
Capital charge in connection with exercise or release of share-based incentive awards	—	(0.7)	(0.7)	—	(0.7)
Share-based compensation (note 8)	—	0.4	0.4	—	0.4
Balance at June 30, 2017	<u>\$ 213.8</u>	<u>\$ 260.2</u>	<u>\$ 474.0</u>	<u>\$ (55.7)</u>	<u>\$ 418.3</u>

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

LIBERTY CABLEVISION OF PUERTO RICO LLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Six months ended June 30,	
	2017	2016
	in millions	
Cash flows from operating activities:		
Net earnings (loss)	\$ 28.6	\$ (2.0)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Share-based compensation expense	1.0	1.2
Depreciation and amortization	41.3	41.9
Impairment, restructuring and other operating items, net	—	1.1
Amortization of deferred financing costs and non-cash interest	1.2	1.2
Realized and unrealized losses on derivative instruments, net	6.8	28.2
Loss on debt modification and extinguishment	2.8	—
Changes in operating assets and liabilities	(13.3)	(6.9)
Net cash provided by operating activities	68.4	64.7
Cash flows from investing activities:		
Capital expenditures	(48.1)	(42.9)
Net cash used by investing activities	(48.1)	(42.9)
Cash flows from financing activities:		
Distributions to members, net	(59.6)	(3.5)
Payments received on the Cayman Holding Loan Receivable	12.3	—
Payment of financing costs	(1.3)	—
Repayments of third-party debt and capital lease obligations	(0.2)	(0.3)
Repayment of the Shareholder Loan	—	(13.3)
Net cash used by financing activities	(48.8)	(17.1)
Net increase (decrease) in cash	(28.5)	4.7
Cash:		
Beginning of period	78.5	65.7
End of period	\$ 50.0	\$ 70.4
Cash paid for interest — third-party	\$ 24.7	\$ 24.5
Cash paid for interest — related-party	\$ —	\$ 3.5
Cash paid for taxes (note 8)	\$ —	\$ 1.4

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

LIBERTY CABLEVISION OF PUERTO RICO LLC
Notes to Condensed Consolidated Financial Statements
June 30, 2017
(unaudited)

(1) Basis of Presentation

Liberty Cablevision of Puerto Rico LLC (**Liberty Puerto Rico**) is a provider of video, broadband internet and fixed-line telephony services to residential and business customers in Puerto Rico. Liberty Puerto Rico 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. On June 3, 2015, our parent company, LCPR Cayman Holding Inc. (**Cayman Holding**), together with Searchlight, entered into an agreement with PPR Media LLC (**PPR Media**) to purchase Puerto Rico Cable Acquisition Company Inc., doing business as Choice Cable TV (**Choice**), a then subsidiary of PPR Media. Through a series of related-party transactions, Liberty Puerto Rico became the parent company of Choice. LiLAC Holdings, Inc. (**LiLAC Holdings**) indirectly owns a 60.0% controlling interest in Liberty Puerto Rico, with the remaining 40.0% interest indirectly owned by Searchlight. LiLAC Holdings is a wholly-owned subsidiary of Liberty Global plc (**Liberty Global**), an international provider of video, broadband internet, fixed-line telephony and mobile services. In these notes, the terms “we,” “our,” “our company” and “us” may refer, as the context requires, to Liberty Puerto Rico or collectively to Liberty Puerto Rico and its subsidiary.

Our unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (**U.S. GAAP**). Accordingly, these financial statements do not include all of the information required by U.S. GAAP for complete financial statements. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the results of operations for the interim periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2016 annual report.

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

Certain prior period amounts have been reclassified to conform to the current period presentation, including the reclassification of certain costs between programming and other direct costs of services, other operating and SG&A expenses.

Liberty Puerto Rico is treated as a partnership that is not a separate tax-paying entity for United States (**U.S.**) federal or Puerto Rico income tax purposes.

These unaudited condensed consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through August 25, 2017, the date of issuance.

(2) Accounting Change and Recent Accounting Pronouncements

Accounting Change

In January 2017, the Financial Accounting Standards Board (**FASB**) issued Accounting Standards Update (**ASU**) No. 2017-04, *Simplifying the Test for Goodwill Impairment (ASU 2017-04)*, which eliminates the requirement to estimate the implied fair value of a reporting unit’s goodwill as determined following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, a company should recognize any goodwill impairment by comparing the fair value of a reporting unit to its carrying amount. We early adopted ASU 2017-04 effective January 1, 2017. The adoption of ASU 2017-04, which reduces the complexity surrounding the evaluation of our goodwill for impairment, had no immediate impact on our impairment evaluations.

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

ASU 2014-09

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (ASU 2014-09)*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09, as amended by ASU No. 2015-14, will replace existing revenue recognition guidance when it becomes effective for annual reporting periods beginning after December 15, 2018. This new standard permits the use of either the retrospective or cumulative effect transition method. We will adopt ASU 2014-09 effective January 1, 2018 using the cumulative effect transition method. While we are continuing to evaluate the effect that ASU 2014-09 will have on our consolidated financial statements, we have identified a number of our current revenue recognition policies that will be impacted by ASU 2014-09, including the accounting for (i) time-limited discounts and free service periods provided to our customers and (ii) certain up-front fees charged to our customers. These impacts are discussed below:

- When we enter into contracts to provide services to our customers, we often provide time-limited discounts or free service periods. Under current accounting rules, we recognize revenue net of discounts during the promotional periods and do not recognize any revenue during free service periods. Under ASU 2014-09, revenue recognition will be accelerated for these contracts as the impact of the discount or free service period will be recognized uniformly over the total contractual period.
- When we enter into contracts to provide services to our customers, we often charge installation or other up-front fees. Under current accounting rules, installation fees related to services provided over our cable networks are recognized as revenue during the period in which the installation occurs to the extent these fees are equal to or less than direct selling costs. Under ASU 2014-09, these fees will generally be deferred and recognized as revenue over the contractual period, or longer if the up-front fee results in a material renewal right.

As the above revenue recognition changes have offsetting impacts and both result in a relatively minor shift in the timing of revenue recognition, we currently do not expect ASU 2014-09 to have a material impact on our reported revenue.

ASU 2014-09 will also impact our accounting for certain upfront costs directly associated with obtaining and fulfilling customer contracts. Under our current policy, these costs are expensed as incurred unless the costs are in the scope of another accounting topic that allows for capitalization. Under ASU 2014-09, the upfront costs that are currently expensed as incurred will be recognized as assets and amortized to other operating expenses over a period that is consistent with the transfer to the customers of the goods or services to which the assets relate, which we have generally interpreted to be the expected life of the customer relationship. The impact of the accounting change for these costs will be dependent on numerous factors, including the number of new subscriber contracts added in any given period, but we expect the adoption of this accounting change will initially result in the deferral of a significant amount of operating and selling costs.

The ultimate impact of adopting ASU 2014-09 for both revenue recognition and costs to obtain and fulfill contracts will depend on the promotions and offers in place during the period leading up to and after the adoption of ASU 2014-09.

ASU 2016-02

In February 2016, the FASB issued ASU No. 2016-02, *Leases (ASU 2016-02)*, which, for most leases, will result in lessees recognizing lease assets and lease liabilities on the balance sheet with additional disclosures about leasing arrangements. ASU 2016-02 requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach also includes a number of optional practical expedients an entity may elect to apply. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. We will adopt ASU 2016-02 on January 1, 2019. Although we are currently evaluating the effect that ASU 2016-02 will have on our consolidated financial statements, the main impact of the adoption of this standard will be the recognition of lease assets and lease liabilities in our consolidated balance sheets for those leases classified as operating leases under previous U.S. GAAP. ASU 2016-02 will not have significant impacts on our consolidated statements of operations or cash flows.

LIBERTY CABLEVISION OF PUERTO RICO LLC
Notes to Condensed Consolidated Financial Statements — (Continued)
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(3) Derivative Instruments

In general, we seek to enter into derivative instruments to protect against increases in the interest rates related to our variable-rate debt. We do not apply hedge accounting to our derivative instruments. Accordingly, changes in the fair values of our interest rate derivative instruments are recorded in realized and unrealized gains or losses on derivative instruments, net, in our condensed consolidated statements of operations.

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

	June 30, 2017			December 31, 2016		
	Current	Long-term (a)	Total	Current	Long-term (a)	Total
	in millions					
Assets:						
Interest rate derivative contracts (b)....	\$ —	\$ 0.9	\$ 0.9	\$ —	\$ 4.8	\$ 4.8
Liabilities:						
Interest rate derivative contracts (b)....	\$ 6.7	\$ 8.7	\$ 15.4	\$ 8.9	\$ 8.4	\$ 17.3

- (a) Our long-term derivative assets and liabilities are included in other assets, net, and other long-term liabilities, respectively, in our condensed consolidated balance sheets.
- (b) We consider credit risk relating to our and our counterparties' nonperformance in the fair value assessment of our derivative instruments. In all cases, the adjustments take into account offsetting liability or asset positions. The changes in the credit risk valuation adjustments associated with our interest rate derivative contracts resulted in a net gain (loss) of (\$0.1 million) and \$0.6 million during the three months ended June 30, 2017 and 2016, respectively, and net gains of \$0.3 million and \$1.7 million during the six months ended June 30, 2017 and 2016, respectively. These amounts are included in realized and unrealized losses on derivative instruments, net, in our condensed consolidated statements of operations. For further information regarding our fair value measurements, see note 4.

The net cash received or paid related to our derivative instruments is classified as an operating, investing or financing activity in our condensed consolidated statements of cash flows based on the objective of the derivative instrument and the classification of the applicable underlying cash flows. During the six months ended June 30, 2017 and 2016, we made cash payments of \$4.8 million and \$3.7 million, respectively, related to our derivative instruments, which are included in operating activities in our condensed consolidated statements of cash flows.

Counterparty Credit Risk

We are exposed to the risk that the counterparties to our derivative instruments will default on their obligations to us. We manage this credit risk through the evaluation and monitoring of the creditworthiness of our counterparties. Collateral is generally not posted by either party under our derivative instruments. At June 30, 2017, all of our derivative contracts are subject to agreements with a single counterparty. These agreements contain master netting arrangements that are applicable in the event of early termination by either party to such derivative instrument. At June 30, 2017, we have no material expected credit risk resulting from our net derivative positions.

Details of our Derivative Instruments

Interest Rate Derivative Contracts

As noted above, we enter into interest rate swaps to protect against increases in the interest rates on our variable-rate debt. Pursuant to these derivative instruments, we typically pay fixed interest rates and receive variable interest rates on specified notional amounts. At June 30, 2017, the notional amounts due from the counterparties were \$675.0 million and the related weighted average remaining contractual life of our interest rate swap contracts was 3.8 years.

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

We enter into interest rate cap agreements that lock in a maximum interest rate if variable rates rise, but also allow our company to benefit from declines in market rates. At June 30, 2017, the total notional amount of our interest rate caps was \$436.3 million.

Impact of Derivative Instruments on Borrowing Costs

The impact of the derivative instruments that mitigate our interest rate risk, as described above, was an increase of 86 basis points to our borrowing costs as of June 30, 2017.

(4) Fair Value Measurements

We use the fair value method to account for our derivative instruments. The reported fair values of these derivative instruments as of June 30, 2017 likely will not represent the value that will be paid or received upon the ultimate settlement or disposition of these assets and liabilities. With respect to our derivative instruments, we expect that the values realized generally will be based on market conditions at the time of settlement, which may occur at the maturity of the derivative instrument or at the time of the repayment or refinancing of the underlying debt instrument.

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

We incorporate a credit risk valuation adjustment in our fair value measurements to estimate the impact of both our own nonperformance risk and the nonperformance risk of our counterparties. Effective January 1, 2017, we incorporated a Monte Carlo based approach into our calculation of the value assigned to the risk that we or our counterparties will default on our respective derivative obligations. Previously, we used a static calculation derived from our most current mark-to-market valuation to calculate the impact of counterparty credit risk. The adoption of a Monte Carlo based approach did not have a material impact on the overall fair value of our derivative instruments. Our credit risk valuation adjustments with respect to our interest rate swaps are quantified and further explained in note 3.

For additional information regarding our fair value measurements, see note 6 to the consolidated financial statements included in our 2016 annual report.

(5) Long-lived Assets

Property and Equipment, Net

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

	June 30, 2017	December 31, 2016
	in millions	
Distribution systems	\$ 669.5	\$ 626.7
Support equipment, buildings and land	59.0	56.1
	<u>728.5</u>	<u>682.8</u>
Accumulated depreciation	(325.3)	(291.4)
Total property and equipment, net.....	<u>\$ 403.2</u>	<u>\$ 391.4</u>

LIBERTY CABLEVISION OF PUERTO RICO LLC
Notes to Condensed Consolidated Financial Statements — (Continued)
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Customer Relationships, Net

The details of our customer relationships are set forth below:

	June 30, 2017	December 31, 2016
	in millions	
Gross carrying amount	\$ 149.1	\$ 149.1
Accumulated amortization	(54.1)	(46.7)
Total customer relationships, net	<u>\$ 95.0</u>	<u>\$ 102.4</u>

(6) Debt and Capital Lease Obligations

Our debt obligations are as follows:

	June 30, 2017		Estimated fair value (c)		Principal amount	
	Weighted average interest rate (a)	Unused borrowing capacity (b)				
			June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
			in millions			
Total debt before discounts and deferred financing costs (d)	4.98%	\$ 40.0	\$ 934.2	\$ 935.2	\$ 942.5	\$ 942.5

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

	June 30, 2017	December 31, 2016
	in millions	
Total debt before discounts and deferred financing costs	\$ 942.5	\$ 942.5
Discounts and deferred financing costs	(12.6)	(15.3)
Total carrying amount of debt	929.9	927.2
Capital lease obligations	—	0.2
Total debt and capital lease obligations	929.9	927.4
Current maturities of debt and capital lease obligations	—	(0.2)
Long-term debt and capital lease obligations	<u>\$ 929.9</u>	<u>\$ 927.2</u>

(a) Represents the weighted average interest rate in effect at June 30, 2017 for all borrowings outstanding pursuant to each debt instrument, including any applicable margin. The interest rate presented represents the stated rate and does not include the impact of deferred financing costs, original issue premiums or discounts and commitment fees, all of which affect our overall cost of borrowing. Including the effects of derivative instruments, original issue discounts and commitment fees, but excluding the impact of financing costs, our weighted average interest rate on our aggregate indebtedness was 5.85% at June 30, 2017. For information regarding our derivative instruments, see note 3.

(b) Unused borrowing capacity represents the maximum availability under the LPR Revolving Loan, for which no amounts were outstanding at June 30, 2017, and without regard to covenant compliance calculations or other conditions precedent to borrowing. Based on the applicable leverage-based restricted payment tests and leverage covenants, the full amount of unused borrowing capacity was available to be borrowed under the Liberty Puerto Rico Bank Facility at June 30, 2017. When the relevant June 30, 2017 compliance reporting requirements have been completed, and assuming no changes from

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the June 30, 2017 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) Represents the Liberty Puerto Rico Bank Facility, which consists of (i) LPR Term Loan B, (ii) LPR Term Loan C and (iii) LPR Revolving Loan. In April 2017, we entered into a term loan agreement to borrow an additional \$85.0 million under the existing \$765.0 million LPR Term Loan B. The additional \$85.0 million under LPR Term Loan B has the same maturity date, interest rate and LIBOR floor as the existing LPR Term Loan B. The additional borrowings under LPR Term Loan B were directly used to prepay \$85.0 million of the \$177.5 million outstanding principal amount under LPR Term Loan C. Accordingly, these transactions represent non-cash financing transactions. In connection with these transactions, we recognized a loss on debt modification and extinguishment of \$2.8 million related to the write-off of unamortized discount and deferred financing costs.

Maturities of Debt

As of June 30, 2017, \$850.0 million of our debt matures in 2022 and \$92.5 million matures in 2023.

(7) Members' Capital

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

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

In accordance with the LLC Agreement, Priority Returns have been accrued and recorded quarterly as increases to the Class A Preferred Member capital and decreases to the Class B Common Member capital since November 8, 2012. Accrued Priority Returns will be reflected as a liability when and if declared. During the six months ended June 30, 2017, we declared and paid distributions consisting of (i) \$28.7 million to our Class A Preferred Member and (ii) \$18.6 million to our Class B Common Member. In addition, our Class B Common Member repaid \$12.3 million of the outstanding principal balance on the Cayman Holding Loan Receivable, as defined and described in note 8, and made a \$6.3 million contribution representing interest on the Cayman Holding Loan Receivable. We then distributed \$18.6 million back to our Class B Common Member. In accordance with the terms of the LLC Agreement, we have reflected these payments as distributions to members in our condensed consolidated statements of cash flows and changes in members' capital.

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(8) Related-party Transactions

Programming and other direct costs of services. We recognized \$0.9 million and \$0.2 million during the three months ended June 30, 2017 and 2016, respectively, and \$1.6 million and \$0.2 million during the six months ended June 30, 2017 and 2016, respectively, for certain other direct costs of services provided by another subsidiary of Liberty Global.

Allocated share-based compensation expense. We recognized share-based compensation of \$0.3 million and nil during the three months ended June 30, 2017 and 2016, respectively, and \$0.4 million and \$0.1 million during the six months ended June 30, 2017 and 2016, respectively, that Liberty Global allocated to our company with respect to share-based incentive awards held by certain of our employees, which are reflected as an increase to members' capital.

Interest expense. Prior to December 31, 2016, we had a loan agreement with LiLAC Holdings (the **Shareholder Loan**), which was repaid in April 2016. During the three and six months ended June 30, 2016, we recognized related-party interest expense on the Shareholder Loan of \$0.2 million and \$0.6 million, respectively. On April 29, 2016, we cash settled the outstanding principal and accrued and unpaid interest on the Shareholder Loan that totaled \$18.2 million through (i) a payment of principal and interest of \$13.3 million and \$3.5 million, respectively, to LiLAC Holdings and (ii) a payment of \$1.4 million to the Puerto Rico tax authorities representing withholding taxes for accrued interest on the Shareholder Loan.

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

	June 30, 2017	December 31, 2016
	in millions	
Other assets, net (a)	\$ 1.3	\$ 1.2
Accounts payable (b)	\$ 3.0	\$ 2.0

(a) Represents various non-interest bearing related-party receivables.

(b) Represents various non-interest bearing related-party payables.

In June 2015, Cayman Holding issued a related-party loan receivable to us in connection with the acquisition of Choice (the **Cayman Holding Loan Receivable**). The Cayman Holding Loan Receivable bears interest at 5.45% and has a maturity date of June 10, 2025. We do not accrue interest income on the Cayman Holding Loan Receivable given our assessment that it is likely that we would directly or indirectly fund any amounts paid by the Class B Common Member with respect to the Cayman Holding Loan Receivable. During the first quarter of 2017, we received interest payments on the Cayman Holding Loan Receivable by our Class B Common Member that have been reflected as a capital contribution in our condensed consolidated statement of members' capital. For additional information regarding payments received on the Cayman Holding Loan Receivable, see note 7.

LIBERTY CABLEVISION OF PUERTO RICO LLC
Notes to Condensed Consolidated Financial Statements — (Continued)
June 30, 2017
(unaudited)

(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 non-cancellable operating leases and network and connectivity commitments. As of June 30, 2017, such commitments are as follows:

	Payments due during:							Total
	Remainder of 2017	2018	2019	2020	2021	2022	Thereafter	
	in millions							
Operating leases	\$ 1.3	\$ 1.5	\$ 1.3	\$ 1.1	\$ 0.9	\$ 0.8	\$ 2.0	\$ 8.9
Network and connectivity commitments (a)	0.6	1.2	1.2	1.2	1.2	1.2	2.2	8.8
Total (b)	\$ 1.9	\$ 2.7	\$ 2.5	\$ 2.3	\$ 2.1	\$ 2.0	\$ 4.2	\$ 17.7

(a) Represents amounts payable to another subsidiary of Liberty Global for network capacity.

(b) The commitments included in this table do not reflect any liabilities that are included in our June 30, 2017 condensed consolidated balance sheet.

In addition to the commitments set forth in the table above, we have certain commitments under agreements with programming vendors pursuant to which we expect to make payments in future periods. While our programming commitments do not require that we pay any fixed minimum fees, we expect to make significant future payments under these contracts based on the actual number of subscribers to the programming services. In this regard, we incurred programming and copyright costs of \$48.1 million and \$51.9 million during the six months ended June 30, 2017 and 2016, respectively.

In addition to the commitments set forth in the table above, we have significant commitments under derivative instruments pursuant to which we expect to make payments in future periods. For information regarding our derivative instruments, see note 3.

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

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

LIBERTY CABLEVISION OF PUERTO RICO LLC
Notes to Condensed Consolidated Financial Statements — (Continued)
June 30, 2017
(unaudited)

(10) Segment Reporting

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

Our revenue by major category is set forth below. Effective April 1, 2017, we changed the categories that we present in this table in order to align with our internal reporting. These changes were retroactively reflected in the prior-year periods.

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
in millions				
Residential cable revenue (a):				
Subscription revenue (b):				
Video	\$ 42.7	\$ 44.6	\$ 85.4	\$ 88.3
Broadband internet	41.5	38.3	81.9	75.8
Fixed-line telephony	6.3	6.5	12.7	13.0
Total subscription revenue.....	90.5	89.4	180.0	177.1
Non-subscription revenue.....	4.4	4.6	8.9	8.9
Total residential cable revenue.....	94.9	94.0	188.9	186.0
Business-to-business (B2B) revenue (c):				
Subscription revenue	6.8	6.9	13.5	13.4
Non-subscription revenue.....	5.4	4.6	10.1	8.6
Total B2B revenue.....	12.2	11.5	23.6	22.0
Other revenue (d)	1.2	1.4	2.5	2.8
Total	\$ 108.3	\$ 106.9	\$ 215.0	\$ 210.8

- (a) Residential cable subscription revenue includes amounts received from subscribers for ongoing services. Residential cable non-subscription revenue includes, among other items, installation revenue and late fees.
- (b) Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our cable and mobile products or the composition of bundles can contribute to changes in our product revenue categories from period to period.
- (c) B2B subscription revenue represents revenue from services to certain small or home office (SOHO) subscribers. SOHO subscribers pay a premium price to receive expanded service levels along with video, broadband internet or fixed-line telephony services that are the same or similar to the mass marketed products offered to our residential subscribers. B2B non-subscription revenue includes business broadband internet, video, fixed-line telephony and data services offered to medium to large enterprises and, on a wholesale basis, to other operators.
- (d) Other revenue primarily includes franchise fees.

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

The following discussion and analysis, which should be read in conjunction with our condensed consolidated financial statements and the discussion and analysis included in our 2016 annual report, is intended to assist in providing an understanding of our financial condition, changes in financial condition and results of operations and is organized as follows:

- *Forward-looking Statements.* This section provides a description of certain of the factors that could cause actual results or events to differ materially from anticipated results or events.
- *Overview.* This section provides a general description of our business and recent events.
- *Material Changes in Results of Operations.* This section provides an analysis of our results of operations for the three and six months ended June 30, 2017 and 2016.
- *Material Changes in Financial Condition.* This section provides an analysis of our liquidity, condensed consolidated statements of cash flows and contractual commitments.

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

Forward-looking Statements

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

- economic and business conditions and industry trends in Puerto Rico, including any adverse impacts that may arise as a result of the high level of Puerto Rico's sovereign debt;
- 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;
- customer acceptance of our existing service offerings, including our cable television, broadband internet, fixed-line telephony and business service offerings, and of new technology, programming alternatives and other products and services that we may offer in the future;
- our ability to manage rapid technological changes;
- our ability to maintain or increase the number of subscriptions to our cable television, broadband internet and fixed-line telephony offerings and our average revenue per household;

- our ability to provide satisfactory customer service, including support for new and evolving products and services;
- our ability to maintain or increase rates to our subscribers or to pass through increased costs to our subscribers;
- the impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital;
- changes in, or failure or inability to comply with, government regulations in Puerto Rico and adverse outcomes from regulatory proceedings;
- government intervention that requires opening our 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;
- changes in laws or treaties relating to taxation, or the interpretation thereof;
- changes in laws and government regulations that may impact the availability and cost of capital and the derivative instruments that hedge certain of our financial risks;
- the ability of suppliers and vendors to timely deliver quality products, equipment, software, services and access;
- the availability of attractive programming for our video services and the costs associated with such programming, including retransmission and copyright fees payable to public and private broadcasters;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- our ability to adequately forecast and plan future network requirements;
- the availability of capital for the acquisition and/or development of telecommunications networks and services;
- problems we may discover post-closing with the operations, including the internal controls and financial reporting process, of businesses we acquire;
- the leakage of sensitive customer data;
- the loss of key employees and the availability of qualified personnel;
- changes in the nature of key strategic relationships with partners; and
- 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

General

We are a provider of video, broadband internet and fixed-line telephony services to residential and business customers in 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, an international provider of video, broadband internet, fixed-line telephony and mobile services.

Operations

At June 30, 2017, we owned and operated a network that passed 1,103,600 homes and served 803,200 revenue generating units (**RGUs**), consisting of 334,200 broadband internet subscribers, 258,700 video subscribers and 210,300 fixed-line telephony subscribers.

Other External Factors

We are facing a challenging economic environment in Puerto Rico due in part to the government's liquidity issues. In this regard, the Puerto Rico government has failed to make significant portions of its scheduled debt payments during 2016 and 2017. Although the Puerto Rico government had implemented tax increases and other measures to improve its solvency and the U.S. had implemented legislation designed to help manage Puerto Rico's debt crisis, the Puerto Rico government filed for a form of bankruptcy protection in May 2017, and Puerto Rico's public utility followed suit in July 2017. In addition, myriad austerity measures, including with respect to public spending on pensions, public healthcare and education, have been either recommended or mandated by the fiscal oversight board charged with overseeing Puerto Rico's recovery and/or adopted by the Puerto Rico government. If the fiscal and economic conditions in Puerto Rico were to continue to worsen, the population of Puerto Rico could continue to decline and the demand and ability of customers to pay for our services could be impaired, both of which could have a negative impact on our results of operations, cash flows and financial condition.

Material Changes in Results of Operations

Discussion and Analysis

General

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

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

Revenue

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

Our revenue by major category is set forth below. Effective April 1, 2017, we changed the categories that we present in this table in order to align with our internal reporting. These changes were retroactively reflected in the prior-year periods.

	Three months ended June 30,		Increase (decrease)	
	2017	2016	\$	%
	in millions			
Residential cable revenue (a):				
Subscription revenue (b):				
Video.....	\$ 42.7	\$ 44.6	\$ (1.9)	(4.3)
Broadband internet	41.5	38.3	3.2	8.4
Fixed-line telephony	6.3	6.5	(0.2)	(3.1)
Total subscription revenue	90.5	89.4	1.1	1.2
Non-subscription revenue	4.4	4.6	(0.2)	(4.3)
Total residential cable revenue	94.9	94.0	0.9	1.0
B2B revenue (c):				
Subscription revenue.....	6.8	6.9	(0.1)	(1.4)
Non-subscription revenue	5.4	4.6	0.8	17.4
Total B2B revenue.....	12.2	11.5	0.7	6.1
Other revenue (d)	1.2	1.4	(0.2)	(14.3)
Total.....	\$ 108.3	\$ 106.9	\$ 1.4	1.3

	Six months ended June 30,		Increase (decrease)	
	2017	2016	\$	%
	in millions			
Residential cable revenue (a):				
Subscription revenue (b):				
Video.....	\$ 85.4	\$ 88.3	\$ (2.9)	(3.3)
Broadband internet	81.9	75.8	6.1	8.0
Fixed-line telephony	12.7	13.0	(0.3)	(2.3)
Total subscription revenue	180.0	177.1	2.9	1.6
Non-subscription revenue	8.9	8.9	—	—
Total residential cable revenue	188.9	186.0	2.9	1.6
B2B revenue (c):				
Subscription revenue.....	13.5	13.4	0.1	0.7
Non-subscription revenue	10.1	8.6	1.5	17.4
Total B2B revenue.....	23.6	22.0	1.6	7.3
Other revenue (d)	2.5	2.8	(0.3)	(10.7)
Total.....	\$ 215.0	\$ 210.8	\$ 4.2	2.0

(a) Residential cable subscription revenue includes amounts received from subscribers for ongoing services. Residential cable non-subscription revenue includes, among other items, installation revenue and late fees.

- (b) Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our cable and mobile products or the composition of bundles can contribute to changes in our product revenue categories from period to period.
- (c) B2B subscription revenue represents revenue from services to certain small or home office SOHO subscribers. SOHO subscribers pay a premium price to receive expanded service levels along with video, broadband internet or fixed-line telephony services that are the same or similar to the mass marketed products offered to our residential subscribers. B2B non-subscription revenue includes business broadband internet, video, fixed-line telephony and data services offered to medium to large enterprises and, on a wholesale basis, to other operators.
- (d) Other revenue primarily includes franchise fees.

The increases in our revenue during the three and six months ended June 30, 2017, as compared to the corresponding periods in 2016, are set forth below:

	Three-month period			Six-month period		
	Subscription revenue	Non-subscription revenue	Total	Subscription revenue	Non-subscription revenue	Total
	in millions					
Increase (decrease) in residential cable subscription revenue due to change in:						
Average number of RGUs (a)	\$ 2.1	\$ —	\$ 2.1	\$ 4.5	\$ —	\$ 4.5
ARPU (b)	(1.0)	—	(1.0)	(1.6)	—	(1.6)
Decrease in residential cable non-subscription revenue	—	(0.2)	(0.2)	—	—	—
Total increase (decrease) in residential cable revenue	1.1	(0.2)	0.9	2.9	—	2.9
Increase (decrease) in B2B revenue (c)	(0.1)	0.8	0.7	0.1	1.5	1.6
Decrease in other revenue	—	(0.2)	(0.2)	—	(0.3)	(0.3)
Total	<u>\$ 1.0</u>	<u>\$ 0.4</u>	<u>\$ 1.4</u>	<u>\$ 3.0</u>	<u>\$ 1.2</u>	<u>\$ 4.2</u>

- (a) The increases in residential cable subscription revenue related to changes in the average number of RGUs are attributable to increases in the average number of broadband internet and fixed-line telephony RGUs that were only partially offset by declines in the average number of enhanced video RGUs.
- (b) The decreases in residential cable subscription revenue related to changes in ARPU are attributable to the net effect of (i) adverse changes in RGU mix and (ii) net increases due to (a) higher ARPU from broadband internet services and (b) lower ARPU from video and fixed-line telephony services.
- (c) The increases in B2B non-subscription revenue are primarily due to higher revenue from data services.

Programming and other direct costs of services

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

Our programming and other direct costs of services decreased \$2.2 million or 7.5% and \$4.0 million or 6.8% during the three and six months ended June 30, 2017, respectively, as compared to the corresponding periods in 2016, primarily due to decreases in premium content related to programming and copyright costs.

Other operating expenses

Other operating expenses include network operations, customer operations, customer care and other costs related to our operations.

Our other operating expenses remained relatively unchanged during the three and six months ended June 30, 2017, as compared to the corresponding periods in 2016.

SG&A expenses

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

Our SG&A expenses decreased \$1.5 million or 10.4% and \$0.4 million or 1.5% during the three and six months ended June 30, 2017, respectively, as compared to the corresponding periods in 2016. Excluding the effects of share-based compensation, which decreased \$0.5 million and \$0.2 million, respectively, SG&A expenses decreased \$1.0 million and \$0.2 million, respectively, due to individually insignificant changes.

Depreciation and amortization expense

Our depreciation and amortization expense decreased \$0.1 million or 0.5% and \$0.6 million or 1.4% during the three and six months ended June 30, 2017, respectively, as compared to the corresponding periods in 2016. These decreases are attributable to the net effect of (i) decreases associated with certain assets becoming fully depreciated and (ii) increases associated with property and equipment additions related to the expansion and upgrade of our network, the installation of customer premises equipment and other capital initiatives.

Impairment, restructuring and other operating items, net

We recognized impairment, restructuring and other operating items, net, of nil and \$0.6 million during the three months ended June 30, 2017 and 2016, respectively, and nil and \$1.1 million during the six months ended June 30, 2017 and 2016, respectively. The 2016 amounts are primarily attributable to employee severance and termination costs associated with certain reorganization and integration activities.

Interest expense – third-party

Our third-party interest expense remained relatively unchanged during the three and six months ended June 30, 2017, as compared to the corresponding periods in 2016.

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

Interest expense – related-party

Our related-party interest expense decreased \$0.2 million and \$0.6 million during the three and six months ended June 30, 2017, respectively, as compared to the corresponding periods in 2016, due to the settlement of the Shareholder Loan in April 2016.

Other expense, net

We recognized other expense, net, of \$2.5 million and nil during the three months ended June 30, 2017 and 2016, respectively, and \$2.6 million and nil during the six months ended June 30, 2017 and 2016, respectively. The 2017 amounts are primarily attributable to a loss on debt extinguishment and modification related to the write-off of unamortized discount and deferred financing costs.

For additional information regarding our loss on debt modification and extinguishment, see note 6 to our condensed consolidated financial statements.

Realized and unrealized losses on derivative instruments, net

Our realized and unrealized gains or losses on derivative instruments include unrealized changes in the fair values of our derivative instruments that are non-cash in nature until such time as the derivative contracts are fully or partially settled.

Our realized and unrealized losses on derivative instruments, net, were \$6.9 million and \$9.0 million during the three months ended June 30, 2017 and 2016, respectively, and \$6.8 million and \$28.2 million during the six months ended June 30, 2017 and 2016, respectively. The losses during each period are primarily due to decreases in market interest rates in the U.S. dollar market. In addition, these losses include net gains (losses) of (\$0.1 million) and \$0.6 million during the three months ended June 30, 2017 and 2016, respectively, and \$0.3 million and \$1.7 million during the six months ended June 30, 2017 and 2016, respectively, resulting from changes in our credit risk valuation adjustments.

For additional information regarding our derivative instruments, see notes 3 and 4 to our condensed consolidated financial statements.

Net earnings (loss)

During the three months ended June 30, 2017 and 2016, we reported net earnings of \$11.0 million and \$5.6 million, respectively, including (i) operating income of \$32.7 million and \$27.6 million, respectively, and (ii) net non-operating expenses of \$21.7 million and \$22.0 million, respectively.

During the six months ended June 30, 2017 and 2016, we reported net earnings (loss) of \$28.6 million and (\$2.0 million), respectively, including (i) operating income of \$62.8 million and \$52.5 million, respectively, and (ii) net non-operating expense of \$34.2 million and \$54.5 million, respectively.

Gains or losses associated with changes in the fair values of derivative instruments are subject to a high degree of volatility and, as such, any gains from this source do not represent a reliable source of income. In the absence of significant gains in the future from this source or from other non-operating items, our ability to achieve earnings from operations is largely dependent on our ability to increase our Segment OCF to a level that more than offsets the aggregate amount of our (i) share-based compensation expense, (ii) depreciation and amortization, (iii) impairment, restructuring and other operating items, net, (iv) interest expense and (v) other net non-operating expenses.

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

Material Changes in Financial Condition

Sources and Uses of Cash

We had \$50.0 million of cash and cash equivalents at June 30, 2017. In addition to our existing cash and cash equivalents, the primary sources of our liquidity are cash provided by operations and borrowings available under the Liberty Puerto Rico Bank Facility, as further described in note 6 to our condensed consolidated financial statements. From time to time, our members may also agree to provide funding to us in the form of subordinated loans or equity contributions.

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

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

Capitalization

For the quarter ended June 30, 2017, (i) our consolidated first lien net leverage ratio was 3.80x and (ii) our consolidated total net leverage ratio was 4.24x, each as specified in, and calculated in accordance with, the Liberty Puerto Rico Bank Facility.

At June 30, 2017, the outstanding principal amount of our debt, together with our capital lease obligations, aggregated \$942.5 million, all of which is due in 2022 or thereafter. For additional information concerning our debt, see note 6 to our condensed consolidated financial statements.

Our ability to generate cash from our operations will depend on our future operating performance, which is in turn dependent, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control. Notwithstanding our negative working capital position at June 30, 2017, we believe that our cash and cash equivalents, the cash provided from our operations and any available borrowings under the Liberty Puerto Rico Bank Facility will be sufficient to fund our currently anticipated working capital needs, property and equipment additions and debt service requirements during the next 12 months, although no assurance can be given that this will be the case. For additional information regarding available borrowings under the Liberty Puerto Rico Bank Facility, see note 6 to our condensed consolidated financial statements. In addition, under certain circumstances, it is possible that LiLAC Holdings would provide a loan to our company pursuant to an arrangement similar to the Shareholder Loan. No assurance can be given that LiLAC Holdings would agree to loan additional amounts to our company on a subordinated basis. We may seek to refinance the Liberty Puerto Rico Bank Facility prior to its January 2022 maturity, and no assurance can be given that we will be able to complete this refinancing. In this regard, it is not possible to predict how political and economic conditions, sovereign debt concerns and/or any adverse regulatory developments could impact the credit markets we access and accordingly, our future liquidity and financial position. In addition, sustained or increased competition, particularly in combination with adverse economic or regulatory developments, could have an unfavorable impact on our cash flows and liquidity.

Our ability to service or refinance our debt and to maintain compliance with our leverage covenants is dependent primarily on our ability to maintain or increase our Segment OCF and to achieve adequate returns on our property and equipment additions and acquisitions. In addition, our ability to obtain additional debt financing is limited by the leverage covenants contained in our credit agreements. In this regard, if our Segment OCF were to decline, we could be required to repay or limit our borrowings under the Liberty Puerto Rico Bank Facility in order to maintain compliance with applicable covenants. No assurance can be given that we would have sufficient sources of liquidity, or that any funding would be available on favorable terms, or at all, to fund any such required repayment.

Condensed Consolidated Statements of Cash Flows

Summary. Our condensed consolidated statements of cash flows for the six months ended June 30, 2017 and 2016 are summarized as follows:

	Six months ended June 30,		Change
	2017	2016	
	in millions		
Net cash provided by operating activities	\$ 68.4	\$ 64.7	\$ 3.7
Net cash used by investing activities	(48.1)	(42.9)	(5.2)
Net cash used by financing activities	(48.8)	(17.1)	(31.7)
Net increase (decrease) in cash and cash equivalents	<u>\$ (28.5)</u>	<u>\$ 4.7</u>	<u>\$ (33.2)</u>

Operating Activities. Net cash provided by our operating activities increased slightly primarily due to lower payments for interest.

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

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

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

	Six months ended June 30,	
	2017	2016
	in millions	
Property and equipment additions.....	\$ 45.7	\$ 41.8
Changes in current liabilities related to capital expenditures.....	2.4	1.1
Capital expenditures	<u>\$ 48.1</u>	<u>\$ 42.9</u>

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

Financing Activities. The increase in cash used by our financing activities primarily relates to the net effect of (i) distributions to our members, (ii) the repayment of the Shareholder Loan and (iii) a partial repayment on the Cayman Holding Loan Receivable.

Contractual Commitments

The following table sets forth our commitments as of June 30, 2017:

	Payments due during:							Total
	Remainder of 2017	2018	2019	2020	2021	2022	Thereafter	
	in millions							
Debt (excluding interest)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 850.0	\$ 92.5	\$ 942.5
Operating leases.....	1.3	1.5	1.3	1.1	0.9	0.8	2.0	8.9
Network and connectivity commitments.....	0.6	1.2	1.2	1.2	1.2	1.2	2.2	8.8
Total (a).....	<u>\$ 1.9</u>	<u>\$ 2.7</u>	<u>\$ 2.5</u>	<u>\$ 2.3</u>	<u>\$ 2.1</u>	<u>\$ 852.0</u>	<u>\$ 96.7</u>	<u>\$ 960.2</u>
Projected cash interest payments on third-party debt (b).....	<u>\$ 48.9</u>	<u>\$ 48.9</u>	<u>\$ 49.0</u>	<u>\$ 49.1</u>	<u>\$ 48.9</u>	<u>\$ 22.1</u>	<u>\$ 10.0</u>	<u>\$ 276.9</u>

(a) The commitments included in this table do not reflect any liabilities that are included in our June 30, 2017 condensed consolidated balance sheet other than debt and capital lease obligations.

(b) Amounts are based on interest rates, interest payment dates, commitment fees and contractual maturities in effect as of June 30, 2017. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. In addition, the amounts presented do not include the impact of our interest rate derivative contracts, deferred financing costs or original issue discounts.

For information concerning our debt and capital lease obligations, see note 6 to our condensed consolidated financial statements. For information concerning our commitments, see note 9 to our condensed consolidated financial statements.

In addition to the commitments set forth in the table above, we have significant commitments under derivative instruments, pursuant to which we expect to make payments in future periods. For information regarding projected cash flows associated with our derivative instruments, see *Projected Cash Flows Associated with Derivative Instruments* below. For information regarding our derivative instruments, including the net cash paid in connection with these instruments during the six months ended June 30, 2017, see note 3 to our condensed consolidated financial statements.

Projected Cash Flows Associated with Derivative Instruments

The following table provides information regarding the projected net cash flows associated with our derivative instruments. The amounts presented below are based on interest rates that were in effect as of June 30, 2017. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. For additional information regarding our derivative instruments, including our counterparty credit risk, see note 3 to our condensed consolidated financial statements.

	Payments due during:							Total
	Remainder of 2017	2018	2019	2020	2021	2022	Thereafter	
	in millions							
Interest-related (a).....	\$ 4.1	\$ 8.2	\$ 7.2	\$ 6.9	\$ 6.8	\$ 1.5	\$ —	\$ 34.7

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

SUPPLEMENTAL SELECTED FINANCIAL INFORMATION

(unaudited)

LIBERTY CABLEVISION OF PUERTO RICO LLC
Selected Financial Information on Revenue by Category
(unaudited)

Effective April 1, 2017, we changed our revenue categories in order to align with our internal reporting. These changes were retroactively reflected in the prior-year periods. The new categories are:

- Residential cable subscription revenue, which includes amounts received from subscribers for ongoing services. Residential cable non-subscription revenue, which includes, among other items, installation revenue and late fees;
- B2B subscription revenue, which represents revenue from services to SOHO subscribers. SOHO subscribers pay a premium price to receive expanded service levels along with video, broadband internet, fixed-line telephony or mobile services that are the same or similar to the mass marketed products offered to our residential subscribers. B2B non-subscription revenue, which includes revenue from business broadband internet, video, voice and data services offered to our medium to large enterprises and, on a wholesale basis, to other operators; and
- Other revenue, which primarily includes franchise fees.

The following table sets forth our quarterly revenue by category for the periods indicated:

	<u>Three months ended</u>				<u>Year ended Dec 31, 2016</u>	<u>Three months ended</u>		<u>Six months ended June 30, 2017</u>
	<u>March 31, 2016</u>	<u>June 30, 2016</u>	<u>Sept 30, 2016</u>	<u>Dec 31, 2016</u>		<u>March 31, 2017</u>	<u>June 30, 2017</u>	
	in millions							
Residential cable revenue:								
Subscription revenue:								
Video.....	\$ 43.7	\$ 44.6	\$ 43.1	\$ 42.5	\$ 173.9	\$ 42.7	\$ 42.7	\$ 85.4
Broadband internet.....	37.5	38.3	38.1	38.6	152.5	40.4	41.5	81.9
Fixed-line telephony	6.5	6.5	6.2	6.3	25.5	6.4	6.3	12.7
Total subscription revenue	<u>87.7</u>	<u>89.4</u>	<u>87.4</u>	<u>87.4</u>	<u>351.9</u>	<u>89.5</u>	<u>90.5</u>	<u>180.0</u>
Non-subscription revenue	<u>4.3</u>	<u>4.6</u>	<u>3.1</u>	<u>3.5</u>	<u>15.5</u>	<u>4.5</u>	<u>4.4</u>	<u>8.9</u>
Total residential cable revenue.....	<u>92.0</u>	<u>94.0</u>	<u>90.5</u>	<u>90.9</u>	<u>367.4</u>	<u>94.0</u>	<u>94.9</u>	<u>188.9</u>
B2B revenue:								
Subscription revenue.....	6.5	6.9	6.7	6.9	27.0	6.7	6.8	13.5
Non-subscription revenue	<u>4.0</u>	<u>4.6</u>	<u>4.7</u>	<u>5.1</u>	<u>18.4</u>	<u>4.7</u>	<u>5.4</u>	<u>10.1</u>
Total B2B revenue.....	<u>10.5</u>	<u>11.5</u>	<u>11.4</u>	<u>12.0</u>	<u>45.4</u>	<u>11.4</u>	<u>12.2</u>	<u>23.6</u>
Other revenue.....	<u>1.4</u>	<u>1.4</u>	<u>2.9</u>	<u>2.3</u>	<u>8.0</u>	<u>1.3</u>	<u>1.2</u>	<u>2.5</u>
Total.....	<u>\$ 103.9</u>	<u>\$ 106.9</u>	<u>\$ 104.8</u>	<u>\$ 105.2</u>	<u>\$ 420.8</u>	<u>\$ 106.7</u>	<u>\$ 108.3</u>	<u>\$ 215.0</u>