# LIBERTY CABLEVISION
# OF PUERTO RICO LLC

**Consolidated Financial Statements**
**December 31, 2018**

**LIBERTY CABLEVISION OF PUERTO RICO LLC**

279 Ponce de Leon Ave.
San Juan, Puerto Rico
00918-1485

**LIBERTY CABLEVISION OF PUERTO RICO LLC**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018**

**TABLE OF CONTENTS**

## Independent Auditors' Report

The Board of Directors
Liberty Cablevision of Puerto Rico LLC:

We have audited the accompanying consolidated financial statements of Liberty Cablevision of Puerto Rico LLC and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, changes in members' capital, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes to the consolidated financial statements.

***Management's Responsibility for the Consolidated Financial Statements***

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

***Auditors' Responsibility***

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

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

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

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Liberty Cablevision of Puerto Rico LLC and its subsidiary as of December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2018, in accordance with U.S. generally accepted accounting principles.

**/s/ KPMG LLP**

San Juan, Puerto Rico
March 8, 2019

Stamp No. E363690 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

**LIBERTY CABLEVISION OF PUERTO RICO LLC**

**CONSOLIDATED BALANCE SHEETS**

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| | in millions | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 19.8 | $ 41.0 |
| Trade receivables, net of allowances of $10.0 and $10.8 million, respectively | 21.7 | 10.5 |
| Prepaid expenses | 7.1 | 5.9 |
| Derivative instruments | 10.5 | — |
| Insurance settlement receivable | 26.9 | 4.6 |
| Other current assets | 2.9 | 2.7 |
| Total current assets | 88.9 | 64.7 |
| Property and equipment, net | 494.5 | 400.8 |
| Goodwill | 277.7 | 277.7 |
| Cable television franchise rights | 540.0 | 540.0 |
| Customer relationships, net | 68.5 | 86.7 |
| Other assets, net | 3.9 | 4.0 |
| Total assets | $ 1,473.5 | $ 1,373.9 |
| **LIABILITIES AND MEMBERS' CAPITAL** | | |
| Current liabilities: | | |
| Accounts payable | $ 14.9 | $ 18.1 |
| Deferred revenue | 11.1 | 8.1 |
| Accrued capital expenditures | 26.2 | 61.8 |
| Third-party accrued interest | 13.1 | 10.9 |
| Related-party accrued liabilities | 6.3 | — |
| Other accrued and current liabilities | 21.5 | 18.4 |
| Total current liabilities | 93.1 | 117.3 |
| Long-term debt: | | |
| Third-party | 933.7 | 971.2 |
| Related-party | 70.2 | 25.0 |
| Other long-term liabilities | 17.8 | 4.7 |
| Total liabilities | 1,114.8 | 1,118.2 |
| Commitments and contingencies | | |
| Members' capital: | | |
| Members' capital | 377.4 | 311.4 |
| Cayman Holding Receivable | (18.7) | (55.7) |
| Members' capital after deducting loan receivable from member | 358.7 | 255.7 |
| Total liabilities and members' capital | $ 1,473.5 | $ 1,373.9 |

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

## LIBERTY CABLEVISION OF PUERTO RICO LLC

## CONSOLIDATED STATEMENTS OF OPERATIONS

| | Year ended December 31, 2018 | 2017 | 2016 |
|---|---|---|---|
| | | in millions | |
| Revenue | $ 335.6 | $ 320.5 | $ 420.8 |
| Operating costs and expenses (exclusive of depreciation and amortization, shown separately below): | | | |
| Programming and other direct costs of services | 79.4 | 82.2 | 113.3 |
| Other operating | 55.1 | 57.2 | 58.3 |
| Selling, general and administrative (**SG&A**) | 55.0 | 49.8 | 40.4 |
| Business interruption loss recovery | (48.5) | — | — |
| Related-party fees and allocations | 4.6 | — | — |
| Depreciation and amortization | 86.0 | 87.5 | 83.2 |
| Impairment, restructuring and other operating items, net | (23.1) | 90.6 | 12.9 |
| | 208.5 | 367.3 | 308.1 |
| Operating income (loss) | 127.1 | (46.8) | 112.7 |
| Non-operating income (expense): | | | |
| Interest expense: | | | |
| Third-party | (62.2) | (51.5) | (51.5) |
| Related-party | (5.7) | (0.2) | (0.6) |
| Realized and unrealized gains (losses) on interest rate derivative instruments, net | 4.0 | (2.6) | (2.4) |
| Other expense, net | (0.1) | (2.4) | (0.2) |
| | (64.0) | (56.7) | (54.7) |
| Net earnings (loss) | $ 63.1 | $ (103.5) | $ 58.0 |

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

## LIBERTY CABLEVISION OF PUERTO RICO LLC

## CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' CAPITAL

| | Class A preferred units | Class B common units | Total Members' capital | Cayman Holding Receivable | Members' capital after deducting loan receivable from member |
|---|---|---|---|---|---|
| | | | in millions | | |
| Balance at January 1, 2016 | $ 257.2 | $ 229.6 | $ 486.8 | $ (68.0) | $ 418.8 |
| Net earnings | — | 58.0 | 58.0 | — | 58.0 |
| Priority Return | 14.6 | (14.6) | — | — | — |
| Distributions to Members | (35.4) | (3.7) | (39.1) | | (39.1) |
| Capital charge in connection with exercise or release of share-based incentive awards | — | (0.3) | (0.3) | — | (0.3) |
| Share-based compensation | — | 0.1 | 0.1 | — | 0.1 |
| Other | — | (0.2) | (0.2) | | (0.2) |
| Balance at December 31, 2016 | 236.4 | 268.9 | 505.3 | (68.0) | 437.3 |
| Net loss | — | (103.5) | (103.5) | — | (103.5) |
| Priority Return | 12.3 | (12.3) | — | — | — |
| Distributions to Members, net | (34.2) | (55.9) | (90.1) | — | (90.1) |
| Payments received on the Cayman Holding Receivable | — | — | — | 12.3 | 12.3 |
| Capital charge in connection with exercise or release of share-based incentive awards | — | (1.0) | (1.0) | — | (1.0) |
| Share-based compensation | — | 0.7 | 0.7 | — | 0.7 |
| Balance at December 31, 2017 | 214.5 | 96.9 | 311.4 | (55.7) | 255.7 |
| Accounting change (note 2) | — | (0.1) | (0.1) | — | (0.1) |
| Balance at January 1, 2018, as adjusted for accounting change | 214.5 | 96.8 | 311.3 | (55.7) | 255.6 |
| Net earnings | — | 63.1 | 63.1 | — | 63.1 |
| Priority Return | 10.5 | (10.5) | — | — | — |
| Contribution from Member | — | 3.0 | 3.0 | — | 3.0 |
| Payments received on the Cayman Holding Receivable | — | — | — | 37.0 | 37.0 |
| Balance at December 31, 2018 | $ 225.0 | $ 152.4 | $ 377.4 | $ (18.7) | $ 358.7 |

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

## LIBERTY CABLEVISION OF PUERTO RICO LLC

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| | | in millions | |
| Cash flows from operating activities: | | | |
| Net earnings (loss) | $ 63.1 | $ (103.5) | $ 58.0 |
| Adjustments to reconcile net earnings (loss) to net cash provided by operating activities: | | | |
| Non-cash share-based compensation | — | 1.3 | 2.9 |
| Depreciation and amortization | 86.0 | 87.5 | 83.2 |
| Impairment | 0.4 | 94.3 | — |
| Amortization of debt financing costs and discounts | 2.5 | 2.5 | 2.3 |
| Realized and unrealized losses (gains) on derivative instruments, net | (4.0) | 2.6 | 2.4 |
| Loss on debt modification and extinguishment | — | 2.8 | — |
| Changes in operating assets and liabilities: | | | |
| Receivables and other operating assets | (32.7) | 7.5 | (6.3) |
| Payables and accruals | 0.3 | (27.3) | 4.2 |
| Net cash provided by operating activities | 115.6 | 67.7 | 146.7 |
| Cash flows from investing activities: | | | |
| Capital expenditures | (197.5) | (90.9) | (84.6) |
| Recovery on damaged or destroyed property and equipment | 15.7 | — | — |
| Net cash used by investing activities | (181.8) | (90.9) | (84.6) |
| Cash flows from financing activities: | | | |
| Contributions from (distributions to) Members, net | 3.0 | (90.1) | (35.0) |
| Borrowings of third-party debt | — | 40.0 | — |
| Repayments of third-party debt and capital lease obligations | (40.0) | (0.2) | (0.4) |
| Borrowings of related-party debt | 45.0 | 25.0 | — |
| Repayment of the LiLAC Communications Loan | — | — | (13.3) |
| Payments received on the Cayman Holding Receivable | 37.0 | 12.3 | — |
| Other financing activities | — | (1.3) | (0.6) |
| Net cash provided (used) by financing activities | 45.0 | (14.3) | (49.3) |
| Net increase (decrease) in cash and cash equivalents | (21.2) | (37.5) | 12.8 |
| Cash and cash equivalents: | | | |
| Beginning of year | 41.0 | 78.5 | 65.7 |
| End of year | $ 19.8 | $ 41.0 | $ 78.5 |
| Cash paid for interest - third-party | $ 57.5 | $ 48.7 | $ 52.9 |
| Cash paid for interest - related-party | $ — | $ — | $ 3.5 |
| Cash paid for taxes | $ — | $ — | $ 1.4 |

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

## (1) Basis of Presentation

### *Organization*

Liberty Cablevision of Puerto Rico LLC (**Liberty Puerto Rico**) is a provider of fixed telecommunications 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. Choice Cable TV (**Choice**) is a wholly-owned subsidiary of Liberty Puerto Rico.

LiLAC Communications, Inc. (**LiLAC Communications**) indirectly owns a 60.0% controlling interest in Liberty Puerto Rico. LiLAC Communications is a wholly-owned subsidiary of Liberty Latin America Ltd. (**Liberty Latin America**). Liberty Latin America's other subsidiaries include (i) Cable & Wireless Communications Limited (**C&W**) and its subsidiaries, (ii) VTR Finance B.V. and its subsidiaries and (iii) Liberty Costa Rica Holdings Ltd. and its subsidiaries. On December 29, 2017, Liberty Latin America was split-off from Liberty Global plc (**Liberty Global**) and became an independent, publicly traded company.

Prior to October 17, 2018, the remaining 40.0% interest in Liberty Puerto Rico was indirectly owned by Searchlight. On October 17, 2018, another wholly-owned subsidiary of Liberty Latin America acquired Searchlight's 40.0% indirect interest in Liberty Puerto Rico. As a result, effective October 17, 2018, Liberty Puerto Rico is now an indirect wholly-owned subsidiary of Liberty Latin America.

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.

### *Basis of Presentation*

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

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 consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through March 8, 2019, the date of issuance.

## (2) Accounting Changes and Recent Accounting Pronouncements

### *Accounting Changes*

*ASU 2014-09*

In May 2014, the Financial Accounting Standards Board (**FASB**) issued Accounting Standards Update (**ASU**) No. 2014-09, *Revenue from Contracts with Customers* (**ASU 2014-09**), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. We adopted ASU 2014-09 effective January 1, 2018 by recording the cumulative effect to the opening balance of our Class B Common Member's (as defined in note 10) capital account. We applied the new standard to contracts that were not complete as of January 1, 2018. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The primary impact of ASU 2014-09 relates to the revenue recognition policy surrounding our accounting for certain installation and other upfront fees charged to our customers.

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

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

The impact of adopting ASU 2014-09 did not have a material impact on our consolidated financial statements for the year ended December 31, 2018. For our disaggregated revenue by product, see note 13.

*ASU 2018-13*

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

***Recent Accounting Pronouncements***

*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 right-of-use assets and lease liabilities on the balance sheet and additional disclosures. ASU 2016-02, as amended by ASU No. 2018-11, *Targeted Improvements*, requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using one of two modified retrospective approaches. A number of optional practical expedients may be applied in transition. 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 by recording the cumulative effect of adoption to our Members' capital.

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

We expect the right-of-use assets and lease obligations recognized in connection with the adoption of ASU 2016-02 will not exceed 1% of our total assets as of January 1, 2019. In addition, we do not expect ASU 2016-02 will have a significant impact on our consolidated statements of operations or cash flows. For a summary of our undiscounted future minimum lease payments under non-cancellable operating leases as of December 31, 2018, see note 12.

*ASU 2018-15*

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software—Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* (**ASU 2018-15**).

ASU 2018-15 provides additional guidance on ASU No. 2015-05, *Intangibles—Goodwill and Other—Internal-Use Software—Customer's Accounting for Fees Paid in a Cloud Computing Arrangement,* which was issued to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement (hosting arrangement) by providing guidance for determining when the arrangement includes a software license. ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The guidance (i) provides criteria for determining which implementation costs to capitalize as an asset related to the service contract and which costs to expense, (ii) requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement and (iii) clarifies the presentation requirements for reporting such costs in the entity's financial statements. ASU 2018-15 is effective for annual reporting periods beginning after December 15, 2020, with early adoption permitted. ASU 2018-15 should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We are currently evaluating the method and date of adoption, as well as the effect that ASU 2018-15 will have on our consolidated financial statements and related disclosures.

## (3) Summary of Significant Accounting Policies

### *Estimates*

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

### *Reclassifications*

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

### *Principles of Consolidation*

The accompanying consolidated financial statements include our accounts and the accounts of our wholly-owned subsidiary. Intercompany accounts and transactions have been eliminated in consolidation.

### *Cash and Cash Equivalents*

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

### *Cash Flow Statement*

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

### *Trade Receivables*

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

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

***Financial Instruments***

Due to the short maturities of cash and cash equivalents, trade and other receivables, other current assets, accounts payable, accrued liabilities and other accrued and current liabilities, their respective carrying values approximate their respective fair values. For information concerning the fair values of our derivative instruments, see note 4. For information regarding how we arrive at certain of our fair value measurements, see note 5.

***Derivative Instruments***

All derivative instruments are recorded on the consolidated balance sheets at fair value. As we do not apply hedge accounting to any of our derivative instruments, the changes in the fair values of our derivative instruments are recognized in earnings.

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

For information regarding our derivative instruments, see note 4.

***Property and Equipment***

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

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

Depreciation is computed using the straight-line method over the estimated useful life of the underlying asset. Useful lives used to depreciate our property and equipment are assessed periodically and are adjusted when warranted. The useful lives of cable distribution systems that are undergoing a rebuild are adjusted such that property and equipment to be retired will be fully depreciated by the time the rebuild is completed. For additional information regarding the useful lives of our property and equipment, see note 7.

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

***Intangible Assets***

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

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

For additional information regarding the useful lives of our intangible assets, see note 7.

***Impairment of Property and Equipment and Intangible Assets***

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

We evaluate goodwill and cable television franchise rights for impairment at least annually on October 1 and whenever facts and circumstances indicate that their carrying amounts may not be recoverable. For purposes of goodwill impairment evaluations, our operations consist of one reporting unit. A reporting unit is an operating segment or one level below an operating segment (referred to as a "component"). Our operating segment is deemed to be a reporting unit as it comprises a single component. For impairment evaluations with respect to both goodwill and cable television franchise rights, we first make a qualitative assessment to determine if the goodwill or cable television franchise rights may be impaired. In the case of goodwill, if it is more-likely-than-not that a reporting unit's fair value is less than its carrying value, we then compare the fair value of the reporting unit to its respective carrying amount. Goodwill impairment is recorded as the excess of a reporting unit's carrying value over its fair value and is charged to operations as an impairment loss. With respect to cable television franchise rights, if it is more-likely-than-not that the fair value of the cable television franchise rights are less than their carrying value, we then estimate their fair value and any excess of the carrying value over the fair value is also charged to operations as an impairment loss. For additional information regarding the fair value measurements of our property and equipment and intangible assets, see note 5. For additional information regarding impairments recorded during 2017, see note 7.

***Income Taxes***

Effective with our formation, we are treated as a partnership that is not a separate tax-paying entity, but instead is a pass-through entity for U.S. federal and Puerto Rico income tax purposes. Accordingly, our taxable income or loss, which may vary substantially from the net earnings or loss reported in our consolidated statements of operations, is included in the income tax returns of each Member, as applicable. For additional information, see note 9.

***Revenue Recognition***

We categorize revenue into two major categories: (i) residential revenue, which includes revenue from fixed services provided to residential customers, and (ii) business-to-business (**B2B**) service revenue. In addition, we have "other revenue," which includes franchise fee revenue and government funding revenue. For additional information regarding our revenue by major category, see note 13. Our revenue recognition policies are as follows.

*General.* Most of our fixed residential contracts are not enforceable or do not contain substantive early termination penalties. Accordingly, revenue relating to these customers is recognized on a basis consistent with customers that are not subject to contracts.

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

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

*Government Funding Revenue.* During 2018, we received funds from the U.S. Federal Communications Commission (the **FCC**), which were granted to help restore and improve coverage and service quality from damages caused by Hurricanes Irma and Maria. The recognition of these funds is not within the scope of ASU 2014-09, as the FCC does not meet the definition of a customer. We recognized the funds granted from the FCC as other revenue in the period in which we were entitled to receive the funds. For additional information regarding funding received during the third quarter of 2018, see note 13.

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

### *Litigation Costs*

Legal fees and related litigation costs are expensed as incurred.

## (4) Derivative Instruments

In general, we seek to enter into derivative instruments to protect against increases in the interest rates on 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 interest rate derivative instruments in our consolidated statements of operations.

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

| | December 31, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Current | Long-term (a) | Total | Current (a) | Long-term (a) | Total |
| | in millions | | | | | |
| Assets (b) | $ 10.5 | $ 0.5 | $ 11.0 | $ — | $ 0.7 | $ 0.7 |
| Liabilities (b) | $ — | $ 10.6 | $ 10.6 | $ 4.3 | $ 2.8 | $ 7.1 |

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

(b) We consider credit risk relating to our and our counterparty's nonperformance in the fair value assessment of our derivative instruments. In all cases, the adjustments take into account offsetting liability or asset positions. The changes in the credit risk valuation adjustments associated with our interest rate derivative contracts were not material during 2018 and 2017 and resulted in a net loss of $1 million during 2016. These amounts are included in realized and unrealized gains (losses) on interest rate derivative instruments, net, in our consolidated statements of operations. For further information regarding our fair value measurements, see note 5.

Our cash outflows related to derivative instruments during 2018, 2017 and 2016 were $3 million, $9 million and $4 million, respectively, and are classified as operating activities in our consolidated statements of cash flows.

### *Counterparty Credit Risk*

We are exposed to the risk that the counterparty to our derivative instruments will default on its obligations to us. We manage this credit risk through the evaluation and monitoring of the creditworthiness of our counterparty. Collateral has not been posted by either party under our derivative instruments. At December 31, 2018, our exposure to counterparty credit risk resulting from our net derivative positions was not material.

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

**Details of our Derivative Instruments**

***Interest Rate Derivative Contracts***

*Interest Rate Swaps*

As noted above, we enter into interest rate swaps to protect against increases in the interest rates on our variable-rate debt. Pursuant to these derivative instruments, we typically pay fixed interest rates and receive variable interest rates on specified notional amounts. At December 31, 2018, the outstanding notional amount of our interest rate swap contracts, which includes forward-starting instruments, was $1,019 million and the related weighted average remaining contractual life was 2.5 years.

*Basis Swaps*

Basis swaps involve the exchange of attributes used to calculate our floating interest rates, including (i) the benchmark rate, (ii) the underlying currency and/or (iii) the borrowing period. We typically enter into these swaps to optimize our interest rate profile based on our current evaluations of yield curves, our risk management policies and other factors. At December 31, 2018, the outstanding notional amount of our basis swap contracts, which includes forward-starting instruments, was $943 million and the related weighted average remaining contractual life was 1.0 year.

*Interest Rate Caps*

We enter into interest rate cap agreements that lock in a maximum interest rate if variable rates rise, but also allow us to benefit from declines in market rates. At December 31, 2018, the total notional amount of our interest rate caps, which includes forward-starting instruments, was $93 million and the related weighted average remaining contractual life was 4.5 years.

***Impact of Derivative Instruments on Borrowing Costs***

The weighted average impact of the derivative instruments, excluding forward-starting derivative instruments, on our borrowing costs at December 31, 2018 was a decrease of 6 basis points.

## (5) Fair Value Measurements

***General***

We use the fair value method to account for our derivative instruments. The reported fair values of our derivative instruments as of December 31, 2018 likely will not represent the value that will be paid or received upon the ultimate settlement or disposition of these assets and liabilities, as we expect that the values realized generally will be based on market conditions at the time of settlement, which may occur at the maturity of the derivative instrument or at the time of the repayment or refinancing of the underlying debt instrument.

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

***Recurring Fair Value Measurements - Derivatives***

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

***Nonrecurring Fair Value Measurements - Impairment Assessments***

Fair value measurements are also used for purposes of nonrecurring valuations performed in connection with impairment assessments. The nonrecurring valuations associated with impairment assessments use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy. During 2018, we did not perform any significant fair value measurements.

In September 2017, the island of Puerto Rico was impacted by Hurricanes Maria and, to a lesser extent, Irma, resulting in extensive damage to homes, businesses and infrastructure. The effects of the hurricanes were deemed to constitute triggering events with respect to the need to assess certain assets for impairment. Nonrecurring valuations were performed in connection with these impairment assessments, most notably to measure the fair value of our company for purposes of assessing goodwill impairments and to measure the fair value of our cable television franchise rights. We used a discount rate of 8% in the valuation of our company, while a discount rate of 9% was used in the valuation of our cable television franchise rights. The valuation of our company used projected cash flows that reflected the significant risks and uncertainties associated with our recovery from Hurricanes Maria and Irma, including variables such as (i) the length of time estimated to restore the power and transmission systems, (ii) the number of people estimated to leave the island for an extended period or permanently and the associated impact on customer churn, (iii) the amount of potential insurance recoveries and (iv) the estimated capital expenditures required to restore our damaged network. For additional information regarding the impairment charges related to the hurricanes, see note 7.

## (6) Insurance Recoveries

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

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

(a) For information regarding the related-party impact of the insurance settlements to our consolidated statements of operations, see note 11.

During 2018, we received net advance payments related to the Hurricanes totaling $50 million ($45 million from a third-party insurance provider and the remainder from a captive insurance subsidiary of C&W (the **Captive**)), of which $16 million is presented as a cash inflow from investing activities on our consolidated statement of cash flows. Subsequent to December 31, 2018, we received the remaining $27 million in insurance settlement proceeds.

## (7) Long-lived Assets

### *Property and Equipment, Net*

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

| | Estimated useful life at December 31, 2018 | December 31, 2018 | December 31, 2017 |
|---|---|---|---|
| | | in millions | |
| Distribution systems | 3 to 15 years | $ 801.6 | $ 644.8 |
| Support equipment, buildings and land | 3 to 40 years | 70.4 | 65.8 |
| | | 872.0 | 710.6 |
| Accumulated depreciation | | (377.5) | (309.8) |
| Total property and equipment, net | | $ 494.5 | $ 400.8 |

Depreciation expense related to our property and equipment was $68 million, $72 million and $68 million during 2018, 2017 and 2016, respectively.

Most of our property and equipment is pledged as security under the LPR Bank Facility, as defined in note 8. For additional information, see note 8.

### *Customer Relationships, Net*

The details of our customer relationships, which have an estimated average useful life of five years at December 31, 2018, and the related accumulated amortization are set forth below:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| | in millions | |
| Gross carrying amount | $ 149.1 | $ 149.1 |
| Accumulated amortization | (80.6) | (62.4) |
| Net carrying amount | $ 68.5 | $ 86.7 |

Amortization expense of intangible assets with finite useful lives was $18 million, $16 million and $15 million during 2018, 2017 and 2016, respectively.

Based on our customer relationships balance at December 31, 2018, we expect that amortization expense will be as follows for the next five years (in millions):

| | |
|---|---|
| 2019 | $ 18.3 |
| 2020 | 18.2 |
| 2021 | 18.2 |
| 2022 | 13.8 |
| 2023 and thereafter | — |
| Total | $ 68.5 |

***Goodwill and Cable Television Franchise Rights***

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

Based on the results of our prior-year goodwill impairment tests, as further described below and in note 5, declines in the fair value of Liberty Puerto Rico resulted in goodwill impairment charges during the third quarter of 2017. These charges represented the full impairment of enterprise level goodwill allocated to Liberty Puerto Rico that was maintained at an entity outside of our borrowing group. In addition, as further described below and in note 5, we recognized a $44 million impairment charge to our cable television franchise rights as a result of the Hurricanes.

***Impairment Charges Associated with Hurricanes***

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

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

For additional information regarding the impacts of the Hurricanes and the fair value methods and related assumptions used in our impairment assessments, see note 5. For information regarding the impact of the Hurricanes on our debt, see note 8.

## (8) Debt

Our third-party debt obligations are as follows:

| | December 31, 2018 | | Estimated fair value (c) | | Principal amount | |
|---|---|---|---|---|---|---|
| | Weighted average interest rate (a) | Unused borrowing capacity (b) | December 31, | | December 31, | |
| | | | 2018 | 2017 | 2018 | 2017 |
| | | | in millions | | | |
| Third-party debt before discounts and deferred financing costs (d) | 6.11% | $ 40.0 | $ 905.4 | $ 951.8 | $ 942.5 | $ 982.5 |

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

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| | in millions | |
| Third-party debt before discounts and deferred financing costs | $ 942.5 | $ 982.5 |
| Discounts and deferred financing costs | (8.8) | (11.3) |
| Total carrying amount of third-party debt | 933.7 | 971.2 |
| Related-party debt (note 11) | 70.2 | 25.0 |
| Total long-term debt | $ 1,003.9 | $ 996.2 |

(a) Represents the weighted average interest rate in effect at December 31, 2018 for all borrowings outstanding pursuant to each debt instrument, including any applicable margin. The interest rate presented represents the stated rate and does not include the impact of derivative instruments, deferred financing costs, original issue discounts and commitment fees, all of which affect our overall cost of borrowing. 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 third-party indebtedness was 6.1% at December 31, 2018. For information regarding our derivative instruments, see note 4.

(b) Unused borrowing capacity represents the maximum availability under the LPR Revolving Credit Facility (as defined and described below), at December 31, 2018 without regard to covenant compliance calculations or other conditions precedent to borrowing. At December 31, 2018, the full amount of unused borrowing capacity was available to be borrowed under the LPR Revolving Credit Facility, both before and after completion of the December 31, 2018 compliance reporting requirements.

(c) The estimated fair values of our debt instruments are determined using the average of applicable bid and ask prices (mostly Level 1 of the fair value hierarchy). For additional information regarding fair value hierarchies, see note 5.

(d) Represents the LPR Bank Facility, which comprises the LPR Revolving Credit Facility, the LPR First Lien Term Loan and the LPR Second Lien Term Loan, each as defined and described below.

***LPR Bank Facility***

The LPR Bank Facility is the senior secured credit facility of our company. On December 20, 2017, in connection with challenging circumstances that we experienced as a result of the damage caused by the Hurricanes, in particular Hurricane Maria, the LPR First Lien Term Loan and the LPR Second Lien Term Loan credit agreements (collectively, the **LPR Credit Agreements**) were amended to (i) provide us relief from complying with leverage covenants through December 31, 2018, (ii) increase the consolidated first lien net leverage ratio covenant from 4.5:1 to 5.0:1 beginning with the March 31, 2019 quarterly test date, (iii) restrict our ability to make certain types of payments to our indirect owners through December 31, 2018 and (iv) include an equity commitment of up to $60 million from our indirect owners through December 31, 2018 to fund any potential liquidity shortfalls. The consolidated total net leverage ratio covenant level remained unchanged at 5.50:1. In addition, there was no change to the margins under the LPR Credit Agreements, no fees were paid in connection with these amendments and all other terms of the LPR Credit Agreements remain in full force and effect. We received $45 million of the $60 million equity commitment from our indirect owners in the form of a subordinated related-party loan from Leo Cable L.P. (**Leo Cable**), as further described in note 11.

In addition to the amendments described above, the LPR Bank Facility includes customary restrictive covenants, prepayment requirements and events of default, including certain cross-default and cross-acceleration provisions with respect to other indebtedness of Liberty Puerto Rico. With the exception of the restriction described above, the LPR Bank Facility permits Liberty Puerto Rico to transfer funds to its parent company, LCPR Cayman Holding Inc. (**Cayman Holding**), (and indirectly to Liberty Latin America) through loans, dividends or other distributions provided that Liberty Puerto Rico maintains compliance with applicable covenants.

The LPR Bank Facility is (i) guaranteed by Liberty Puerto Rico and its subsidiary and (ii) secured by pledges over (a) the Liberty Puerto Rico shares indirectly owned by Liberty Latin America and (b) certain other assets owned by Liberty Puerto Rico.

The details of our borrowings under the LPR Bank Facility as of December 31, 2018 are summarized in the following table:

| LPR Bank Facility | Maturity | Interest rate | Facility amount | Unused borrowing capacity | Outstanding principal amount | Carrying value (a) |
|---|---|---|---|---|---|---|
| | | | | in millions | | |
| LPR Revolving Credit Facility (b) | July 7, 2020 | LIBOR + 3.50% | $ 40.0 | $ 40.0 | $ — | $ — |
| LPR First Lien Term Loan | January 7, 2022 | LIBOR + 3.50% (c) | $ 850.0 | — | 850.0 | 842.3 |
| LPR Second Lien Term Loan | July 7, 2023 | LIBOR + 6.75% (c) | $ 92.5 | — | 92.5 | 91.4 |
| Total | | | | $ 40.0 | $ 942.5 | $ 933.7 |

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

(b) The LPR Revolving Credit Facility has a fee on unused commitments of 0.50% or 0.375%, depending on the consolidated total net leverage ratio (as specified in the LPR Bank Facility). In October 2017, we borrowed in full the $40 million LPR Revolving Credit Facility under the LPR Bank Facility. In December 2018, the outstanding LPR Revolving Credit Facility balance was repaid in full.

(c) The LPR First Lien Term Loan and the LPR Second Lien Term Loan credit agreements each have a LIBOR floor of 1.0%.

***Non-cash Refinancing Transactions***

In April 2017, we entered into a term loan agreement to borrow an additional $85 million under the existing $765 million LPR First Lien Term Loan. The additional $85 million under LPR First Lien Term Loan has the same maturity date, interest rate and LIBOR floor as the existing LPR First Lien Term Loan. The additional borrowings under the LPR First Lien Term Loan were directly used to prepay $85 million of the $178 million outstanding principal amount under the LPR Second Lien Term Loan. The exchange in principal amounts was treated as a non-cash transaction in our consolidated statement of cash flows. In connection with these transactions, we recognized a loss on debt modification and extinguishment of $3 million related to the write-off of unamortized discounts and deferred financing costs.

***Maturities of Debt***

As of December 31, 2018, $850 million and $93 million of our debt matures in 2022 and 2023, respectively.

## (9) Income Taxes

Prior to our formation, we were a separate tax-paying corporation in Puerto Rico. Subsequent to our formation, we are treated as a partnership that is not a separate tax-paying entity, but instead is a pass-through entity for U.S. federal and Puerto Rico income tax purposes.

Prior to our acquisition of Choice in 2015 (the **Choice Acquisition**), Choice was a separate tax-paying corporation in Puerto Rico. Effective with the Choice Acquisition, Choice is treated as a disregarded entity for U.S. federal income tax purposes and as a partnership for Puerto Rico income tax purposes. In either case, Choice is not a separate tax-paying entity.

We file, and prior to the formation of Liberty Puerto Rico and the Choice Acquisition, our predecessors and the predecessor to Choice filed, tax returns in both Puerto Rico and U.S. tax jurisdictions. In the normal course of business, these income tax filings are subject to review by various taxing authorities. In connection with such reviews, disputes could arise with the taxing authorities over the interpretation or application of certain income tax rules related to our business in that tax jurisdiction. Such disputes may result in future tax and interest assessments by these taxing authorities. The ultimate resolution of tax contingencies, if any, will take place upon the earlier of (i) the settlement date with the applicable taxing authorities in either cash or agreement of income tax positions or (ii) the date when the tax authorities are statutorily prohibited from adjusting the company's tax computations.

The tax returns filed by our predecessors for years prior to 2014 are no longer subject to examination by tax authorities. We do not anticipate that any adjustments that might arise from tax authorities' examinations will have a material impact on our financial position or results of operations.

## (10) 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) to the Class A Preferred Member, the amount of the aggregate accrued and unpaid Priority Return (as defined and described below), (ii) 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) to the Members in respect of their units on a pro rata basis, subject to certain limitations, and (iv) 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 consolidated statements 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) 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) 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.

A priority return (the **Priority Return**) shall be made, from time to time, to the Class A Preferred Member based on a per annum rate of 11% on the adjusted value of the Class A preferred units, as specified in the LLC Agreement. Whether or not declared, the Priority Return accrues on a daily basis, is cumulative and compounds annually on December 31. In accordance with the LLC Agreement, Priority Returns are accrued and recorded quarterly as increases to the Class A Preferred Member capital and decreases to the Class B Common Member capital. The Priority Return shall be reflected as a liability, and generally only paid, when and if declared. The cumulative amount of unpaid Priority Returns as of December 31, 2018 was $5 million.

*Transactions with Class A Preferred Member*

During 2017, we paid distributions of (i) $19 million to our Class A Preferred Member and (ii) $16 million reflecting taxes we paid on behalf of our Class A Preferred Member. These distributions are reflected in distributions to Members, net, in our consolidated statements of cash flows and changes in members' capital.

During 2016, we paid distributions of (i) $30 million to our Class A Preferred Member and (ii) $5 million reflecting taxes we paid on behalf of our Class A Preferred Member. These distributions are reflected in distributions to Members in our consolidated statements of cash flows and changes in members' capital.

*Transactions with Class B Common Member*

During 2018, our Class B Common Member repaid $37 million of the outstanding principal balance on the Cayman Holding Receivable, as defined and described in note 11, and made a $3 million contribution representing interest on the Cayman Holding Receivable.We have reflected this interest payment as a contribution from Member in our consolidated statements of cash flows and changes in members' capital.

During the first quarter of 2017, we paid a distribution of $19 million to our Class B Common Member. Subsequent to this distribution, our Class B Common Member repaid $12 million of the outstanding principal balance on the Cayman Holding Receivable and made a $6 million contribution representing interest on the Cayman Holding Receivable. We then paid a distribution of $19 million back to our Class B Common Member. We have reflected these payments in distributions to Members, net, in our consolidated statements of cash flows and changes in members' capital.

During the fourth quarter of 2017, and following the borrowing of $40 million on the LPR Revolving Credit Facility as further described in note 8, we paid amounts aggregating $65 million to our Class B Common Member. We have reflected these payments in distributions to Members, net, in our consolidated statements of cash flows and changes in members' capital. Subsequent to these distributions, our Class B Common Member paid us (i) $40 million in the form of a capital contribution and (ii) $25 million in the form of related-party debt, as further described in note 11. We have reflected the $40 million contribution in distributions to Members, net, in our consolidated statements of cash flows and changes in members' capital.

## (11) Related-party Transactions

Our related-party transactions are as follows (in millions):

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| | | in millions | |
| Revenue | $ 1.8 | $ 1.0 | $ — |
| Programming and other direct costs of services | (4.6) | (4.3) | (1.2) |
| SG&A (exclusive of share-based compensation) | (1.2) | (0.1) | (0.4) |
| Allocated share-based compensation expense | (1.2) | (0.7) | (0.2) |
| Impairment, restructuring and other operating items, net | 4.7 | 0.8 | — |
| Related-party fees and allocations: | | | |
| Operating and SG&A related (exclusive of depreciation and share-based compensation) | (2.8) | — | — |
| Share-based compensation | (1.4) | — | — |
| Management fee | (0.4) | — | — |
| Total fees and allocations | (4.6) | — | — |
| Included in operating income (loss) | (5.1) | (3.3) | (1.8) |
| Interest expense | (5.7) | (0.2) | (0.6) |
| Included in net earnings (loss) | $ (10.8) | $ (3.5) | $ (2.4) |
| Capital expenditures | $ 1.8 | $ — | $ — |

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

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

*Programming and other direct costs of services.* These amounts represent network capacity services provided by C&W. Prior to the acquisition of C&W by Liberty Global on May 16, 2016, these costs were reflected as third-party expenses.

*SG&A.* The 2018 amount primarily represents certain technical and information technology services (including software development services associated with customer facing platforms, management information systems, computer, data storage, and network and telecommunications services) provided by Liberty Global. The 2017 and 2016 amounts represent various other services provided by subsidiaries of Liberty Global.

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

*Impairment, restructuring and other operating items, net.* These amounts represent the insurance recoveries that are ultimately the obligation of the Captive. For additional information regarding the insurance settlements resulting from the Hurricanes, including the third-party recoveries, see note 6.

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

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

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

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

*Interest expense.* The 2018 amount relates to the Cayman Holding Loan and the Leo Cable Loan, each as defined and described below. The 2017 amount relates to the Cayman Holding Loan. The 2016 amount relates to the LiLAC Communications Loan, as defined and described below, which was repaid in April 2016.

*Capital expenditures.* These amounts relate to capital assets acquired from subsidiaries of Liberty Global.

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

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| | in millions | |
| Assets: | | |
| Other current assets (a) | $ — | $ 0.8 |
| Other assets, net (b) | 1.4 | 1.4 |
| Total assets | $ 1.4 | $ 2.2 |
| Liabilities: | | |
| Accounts payable (c) | $ 4.7 | $ 5.8 |
| Related-party accrued liabilities (d) | 6.3 | — |
| Debt: | | |
| Cayman Holding Loan (e) | 25.2 | 25.0 |
| Leo Cable Loan (f) | 45.0 | — |
| Other long-term liabilities (g) | 5.7 | 0.2 |
| Total liabilities | $ 86.9 | $ 31.0 |

(a) The amount represents the estimated probable insurance recoveries that were ultimately the obligation of the Captive.

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

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

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

(e) On October 31, 2017, we entered into a loan agreement with Cayman Holding (the **Cayman Holding Loan**), which is subordinate in right of payment to the LPR Bank Facility. The Cayman Holding Loan bears interest at 4.89% per annum and has a maturity date of July 7, 2024. Interest accrues and is (i) payable on the last day of each month and on the date of each full or partial repayment of the outstanding principal or (ii) transferred to the principal balance of the loan on January 1 of each year. The increase in the Cayman Holding Loan balance during the year ended December 31, 2018 relates to a non-cash transfer of accrued interest.

(f) On February 26, 2018, as part of the commitment further described in note 8, we entered into a $25 million loan agreement with Leo Cable (the **Leo Cable Loan**), which is subordinate in right of payment to the LPR Bank Facility. The Leo Cable Loan bears interest at 13.00% per annum and has a maturity date of July 7, 2024. Interest accrues and is (i) payable on the last day of each month and on the date of each full or partial repayment of the outstanding principal or (ii) transferred to the principal balance of the loan on January 1 of each year. During the second quarter of 2018, we received an additional $20 million from Leo Cable that was added to the principal balance of the Leo Cable Loan.

(g) The 2018 amount represents accrued and unpaid interest on the Leo Cable Loan and the Cayman Holding Loan. The 2017 amount represents accrued and unpaid interest on the Cayman Holding Loan.

In June 2015, Cayman Holding issued a related-party loan receivable to us in connection with the acquisition of Choice (the **Cayman Holding Receivable**). The Cayman Holding Receivable bears interest at 5.45% and has a maturity date of June 10, 2025. For financial reporting purposes, we have presented the Cayman Holding Receivable as a reduction of our members' capital. We do not accrue interest income on the Cayman Holding 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 Receivable. During 2018 and 2017, principal of $37 million and $12 million, respectively, was repaid and we received $3 million and $6 million, respectively, of interest payments by our Class B Common Member that have been reflected as capital contributions in our consolidated statements of members' capital. See note 10 for additional information regarding payments received on the Cayman Holding Receivable.

On December 31, 2012, we entered into a loan agreement with LiLAC Communications (the **LiLAC Communications Loan**), which was subordinate in right of payment to the LPR Bank Facility. The LiLAC Communications Loan bore interest at 10.0% per annum. Accrued and unpaid interest, if any, was added to the principal of the loan on January 1 of each year. On April 29, 2016, we cash settled the outstanding principal and accrued and unpaid interest on the LiLAC Communications Loan that totaled $18 million through (i) a payment of principal and interest of $13 million and $4 million, respectively, and (ii) a payment of $1 million to the Puerto Rico tax authorities representing withholding taxes for accrued interest on the LiLAC Communications Loan.

For information regarding distributions and contributions with our Members, see note 10.

During 2017 and 2016, we recorded capital charges in our consolidated statements of changes in members' capital in connection with the exercise or release from restriction of Liberty Global share-based incentive awards held by certain of our employees. During 2016, we recorded a $1 million adjustment to increase members' capital. This adjustment, which is presented within other, net in our consolidated statement of changes in members' capital, relates to capital charges associated with the 2015 exercise or release from restriction of Liberty Global share-based incentive awards held by certain of our employees. These charges are based on the fair value of the underlying Liberty Global shares associated with share-based incentive awards that are exercised or are released from restriction during the period. Beginning in 2018, capital charges are now included as a component of allocated share-based compensation expense.

## (12) 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 other items. As of December 31, 2018, such commitments are as follows:

| | Payments due during: | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2023 | Thereafter | Total |
| | | | | in millions | | | |
| Operating leases (a) | $ 1.3 | $ 1.0 | $ 0.9 | $ 0.8 | $ 0.8 | $ 1.1 | $ 5.9 |

(a) The commitments included in this table do not reflect any liabilities that are included in our December 31, 2018 consolidated balance sheet.

In addition to the commitments set forth in the table above, we have certain commitments under agreements with programming vendors, franchise authorities and municipalities pursuant to which we expect to make payments in future periods. While our programming commitments do not require that we pay any fixed minimum fees, we expect to make significant future payments under these contracts based on the actual number of subscribers to the programming services. In this regard, we incurred programming and copyright costs of $69 million, $70 million and $100 million during 2018, 2017 and 2016, respectively.

Operating leases consist of non-cancellable lease commitments for (i) retail stores, offices and facilities, (ii) other network assets and (iii) other equipment. Rental expense under operating lease arrangements amounted to $3 million during each of the years ended December 31, 2018, 2017 and 2016. It is expected that in the normal course of business, operating leases that expire will generally be renewed or replaced by similar leases.

In addition to the commitments set forth in the table above, we have commitments under derivative instruments pursuant to which we expect to make payments in future periods. For information regarding our derivative instruments, including the net cash paid or received in connection with these instruments during 2018, 2017 and 2016, see note 4.

### *Legal and Regulatory Proceedings and Other Contingencies*

*PRTC and Class Action Claims.* In November 2012, we acquired San Juan Cable, LLC dba Onelink Communications (**OneLink**). In connection with this transaction (the **OneLink Acquisition**), we became a party to certain claims previously asserted by the incumbent telephone operator (**PRTC**) against OneLink based on alleged conduct of OneLink that occurred prior to the OneLink Acquisition (the **PRTC Claim**). In July 2016, the judge presiding over the PRTC Claim granted OneLink summary judgment that dismissed the PRTC Claim in its entirety. Accordingly, we released our previously-recorded provision and related indemnification asset associated with the PRTC Claim, resulting in a $5 million reduction to our SG&A expenses during the third quarter of 2016. In December 2016, we received $8 million related to the reimbursement of legal fees we incurred in connection with the PRTC Claim, resulting in a reduction to our SG&A expenses during the fourth quarter of 2016 and the release of the former owners of OneLink from their obligations under the indemnification agreement entered into in connection with the OneLink Acquisition.

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

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

## (13) Revenue by Product

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

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| | | in millions | |
| Residential fixed revenue: | | | |
| Subscription revenue (a): | | | |
| Video | $ 118.9 | $ 125.4 | $ 172.9 |
| Broadband internet | 132.5 | 124.5 | 152.3 |
| Fixed-line telephony | 18.6 | 19.9 | 25.6 |
| Total subscription revenue | 270.0 | 269.8 | 350.8 |
| Non-subscription revenue (b) | 13.5 | 16.6 | 22.5 |
| Total residential fixed revenue | 283.5 | 286.4 | 373.3 |
| B2B service revenue (c) | 37.1 | 29.9 | 41.0 |
| Other revenue (d) | 15.0 | 4.2 | 6.5 |
| Total | $ 335.6 | $ 320.5 | $ 420.8 |

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

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

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

(d) For the 2018 period, other revenue includes $11 million received from the FCC, which was granted to help restore and improve coverage and service quality from damages caused by the Hurricanes. Other revenue also 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 consolidated financial statements, is intended to assist in providing an understanding of our results of operations and financial condition and is organized as follows:

- *Forward-looking Statements.* This section provides a description of certain of the factors that could cause actual results or events to differ materially from anticipated results or events.

- *Overview.* This section provides a general description of our business and recent events.

- *Results of Operations.* This section provides an analysis of our results of operations for the years ended December 31, 2018 and 2017.

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

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

### Forward-looking Statements

Certain statements in this annual report constitute forward-looking statements. To the extent that statements in this annual report are not recitations of historical fact, such statements constitute forward-looking statements, which, by definition, involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. In particular, statements under *Management's Discussion and Analysis of Financial Condition and Results of Operations* may contain forward-looking statements, including our business, product, service offering, and finance strategies in 2019; programming and copyright costs; subscriber growth and retention rates; changes in competitive, regulatory and economic factors; anticipated changes in our revenue, costs or growth rates; our liquidity, including our expectations regarding the sufficiency of cash flows from our operations; credit risks; interest expense; 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 and the ability of customers in Puerto Rico to pay for our services;

- the competitive environment in Puerto Rico, including competitor responses to our products and services;

- fluctuations in interest rates;

- instability in global financial markets, including sovereign debt issues and related fiscal reforms;

- consumer disposable income and spending levels, including the availability and amount of individual consumer debt;

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

- customer acceptance of our existing service offerings, including our video, broadband internet, fixed-line telephony and business service offerings, and of new technology, programming alternatives and other products and services that we may offer in the future;

- our ability to manage rapid technological changes;

- the impact of 5G and wireless technologies on broadband internet;

- our ability to maintain or increase the number of subscriptions to our video, broadband internet and fixed-line telephony offerings and our average revenue per household;
- our ability to provide satisfactory customer service, including support for new and evolving products and services;
- our ability to maintain or increase rates to our subscribers or to pass through increased costs to our subscribers;
- the impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital;
- changes in, or failure or inability to comply with, government regulations in Puerto Rico and adverse outcomes from regulatory proceedings;
- government intervention that requires opening our broadband distribution network to competitors;
- our ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions and dispositions, and the impact of conditions imposed by competition and other regulatory authorities in connection with acquisitions;
- our ability to successfully acquire new businesses and, if acquired, to integrate, realize anticipated efficiencies from and implement our business plan with respect to the businesses we have acquired or that we expect to acquire;
- changes in laws or treaties relating to taxation, or the interpretation thereof;
- changes in laws and government regulations that may impact the availability and cost of capital and the derivative instruments that hedge certain of our financial risks;
- the ability of suppliers and vendors to timely deliver quality products, equipment, software, services and access;
- the availability of attractive programming for our video services and the costs associated with such programming, including retransmission and copyright fees payable to public and private broadcasters;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- our ability to adequately forecast and plan future network requirements, including the costs and benefits associated with our network extension and upgrade programs;
- the availability of capital for the acquisition and/or development of telecommunications networks and services, including property and equipment additions;
- expectations with respect to liquidity, including cash from operations;
- problems we may discover post-closing with the operations, including the internal controls and financial reporting process, of businesses we acquire;
- cybersecurity threats or other security breaches, including the leakage of sensitive customer data, which could harm our business or reputation;
- the loss of key employees and the availability of qualified personnel;
- changes in the nature of key strategic relationships with partners;
- changes in and compliance with applicable data privacy laws, rules, and regulations; and
- events that are outside of our control, such as political unrest in international markets, terrorist attacks, malicious human acts, hurricanes and other natural disasters, pandemics and other similar events.

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

## Overview

### *General*

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

### *Operations*

At December 31, 2018, we owned and operated fixed networks that passed 1,088,400 homes and served 738,600 revenue generating units (**RGUs**), comprising 324,000 broadband internet subscribers, 217,100 video subscribers and 197,500 fixed-line telephony subscribers.

### *Hurricane Update*

In September 2017, the island of Puerto Rico was impacted by Hurricanes Maria and, to a lesser extent, Irma, resulting in extensive damage to homes, businesses and infrastructure. In December 2018, insurance claims for the Hurricanes were settled. During 2018, we received net advance payments related to the Hurricanes totaling $50 million ($45 million through a third-party insurance provider and the remainder through the Captive). Subsequent to December 31, 2018, we received the remaining $27 million in insurance settlement proceeds. For additional information regarding the hurricane-related insurance settlements, see notes 6 and 11 to our consolidated financial statements.

In connection with the Hurricanes, we experienced adverse impacts to revenue, OCF, as defined and described in *Results of Operations* below, and RGUs during 2018 and the second half of 2017. We completed restoration of our broadband communications network during the third quarter of 2018. In connection with our restoration work, we incurred property and equipment additions of approximately $142 million, of which $92 million was incurred during 2018. As of December 31, 2018, we are providing service to 738,600 RGUs, as compared with 803,500 RGUs at August 31, 2017. Contributing to this decline in RGUs are non-organic adjustments totaling 48,300 RGUs that represent subscribers in areas where we have not restored the network.

From a liquidity perspective, the cash provided by our operations was a significant source of pre-hurricane liquidity. As a result of the hurricane impacts, we did not generate positive cash from operations, inclusive of capital expenditures, until the third quarter of 2018. In this regard, our liquidity needs following the Hurricanes included a funding commitment from our indirect owners through December 31, 2018 to fund any potential liquidity shortfalls of up to $60 million, of which $45 million was received in the form of a subordinated related-party loan from Leo Cable, as further described in note 11 to our consolidated financial statements. Our liquidity needs following the Hurricanes have also been funded by (i) insurance advances in 2018 totaling $50 million, (ii) $40 million of funding under the LPR Revolving Credit Facility, which was repaid during the fourth quarter of 2018, (iii) beginning in the third quarter of 2018, cash from operations, inclusive of capital expenditures, and (iv) the repayment received on the Cayman Holding Receivable. As of December 31, 2018, we expect cash from operations will be sufficient to satisfy our liquidity requirements over the next twelve months.

### *Strategy and Management Focus*

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

### *Competition and Other External Factors*

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

**Products and Services**

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

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

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

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

**Results of Operations**

***General***

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

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

***Revenue***

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

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

Variances in the subscription revenue that we receive from our customers are a function of (i) changes in the number of RGUs during the period and (ii) changes in ARPU. Changes in ARPU can be attributable to (i) changes in prices, (ii) changes in bundling or promotional discounts, (iii) changes in the tier of services selected, (iv) variances in subscriber usage patterns and (v) the overall mix of fixed products during the period. In the following discussion, we discuss ARPU changes in terms of the net impact of the above factors on the ARPU that is derived from our video, broadband internet and fixed-line telephony products. Variances in our revenue during 2018, as compared to 2017, were significantly impacted by Hurricanes Maria and Irma.

As further described in note 2 to our consolidated financial statements, we adopted ASU 2014-09 effective January 1, 2018 using the cumulative effect transition method. The impact to total revenue during 2018 was not material.

Due to the significant impact of the Hurricanes on our operations, we have provided supplementary sequential information in order to provide a meaningful analysis of our business, including recovery after the Hurricanes. Accordingly, our revenue by major category during each of the (i) three months ended December 31, 2018 and September 30, 2018 and (ii) years ended December 31, 2018 and 2017 is set forth below:

| | Three months ended | | Year ended | |
|---|---|---|---|---|
| | **December 31, 2018** | **September 30, 2018** | **December 31, 2018** | **December 31, 2017** |
| | **in millions** | | | |
| Residential fixed revenue: | | | | |
| Subscription revenue: | | | | |
| Video | $ 33.6 | $ 32.2 | $ 118.9 | $ 125.4 |
| Broadband internet | 38.8 | 36.0 | 132.5 | 124.5 |
| Fixed-line telephony | 5.4 | 5.1 | 18.6 | 19.9 |
| Total subscription revenue | 77.8 | 73.3 | 270.0 | 269.8 |
| Non-subscription revenue | 4.4 | 4.0 | 13.5 | 16.6 |
| Total residential fixed revenue | 82.2 | 77.3 | 283.5 | 286.4 |
| B2B service revenue | 10.6 | 10.1 | 37.1 | 29.9 |
| Other revenue | 1.1 | 12.2 | 15.0 | 4.2 |
| Total | $ 93.9 | $ 99.6 | $ 335.6 | $ 320.5 |

Our revenue increased $15 million during 2018, as compared to 2017, primarily due to $11 million of revenue related to FCC funds received in August 2018, which is included in other revenue. The FCC granted these funds to help restore and improve coverage and service quality from damages caused by Hurricanes Irma and Maria. The remaining increase is primarily due to (i) higher revenue from business data services, and (ii) higher residential fixed subscription revenue, as improved ARPU from broadband internet services was only partially offset by a decline in video services resulting from a lower volume of RGUs following the Hurricanes.

The table below presents changes in (i) residential fixed subscription revenue due to changes in the average number of RGUs and ARPU, (ii) residential fixed non-subscription revenue, (iii) B2B service revenue and (iv) other revenue, each reflective of changes during the three months ended December 31, 2018, as compared to the three months ended September 30, 2018 (in millions).

| | | |
|---|---|---|
| Increase (decrease) in residential fixed subscription revenue due to change in: | | |
| Average number of RGUs (a) | $ | 4.8 |
| ARPU | | (0.3) |
| Increase in residential fixed non-subscription revenue | | 0.4 |
| Total increase in residential fixed revenue | | 4.9 |
| Increase in B2B service revenue | | 0.5 |
| Decrease in other revenue (b) | | (11.1) |
| Total | $ | (5.7) |

(a) The increase is primarily attributable to increases in broadband internet and video RGUs resulting from our efforts to restore services to existing customers following the Hurricanes and the provision of services to new customers. For additional information regarding our hurricane recovery efforts, see the discussion under *Overview* above.

(b) The decrease is mostly attributable to the receipt of $11 million from the FCC in August 2018, as further described above.

***Programming and other direct costs of services***

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

Our programming and other direct costs of services decreased $3 million or 3.4% during 2018, as compared to 2017, primarily related to the net effect of (i) a decline of $13 million due to a lower average number of enhanced video subscribers following the Hurricanes, and (ii) an increase of $11 million associated with fewer credits received from programming vendors stemming from Hurricanes Maria and Irma. During 2018 and 2017, we received programming credits totaling $11 million and $22 million, respectively.

***Other operating expenses***

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

Our other operating expenses decreased $2 million or 3.7% during 2018, as compared to 2017, primarily due to the net effect of lower various indirect expenses of approximately $4 million, predominantly related to the net effect of (i) lower bad debt expense, (ii) higher call center costs and (iii) higher capitalized labor associated with restoration and rebuild projects, all as a result of the Hurricanes. In addition, we experienced slightly higher personnel costs of $1 million resulting from hurricane recovery efforts, which are net of a $1 million hurricane disaster relief credit from the Puerto Rico treasury department, representing relief for wages paid to employees during the period of time our business was inoperable as a result of the Hurricanes.

***SG&A expenses***

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

Our SG&A expenses (exclusive of share-based compensation expense) increased $5 million or 10.9% during 2018, as compared to 2017, primarily attributable to the following factors:

- An increase in personnel costs of $2 million or 7.4%, mostly driven by higher sales commissions. This increase includes a $1 million hurricane disaster relief credit from the Puerto Rico treasury department, representing relief for wages paid to employees during the period of time our business was inoperable as a result of the Hurricanes;

- An increase of $1 million related to higher insurance premiums; and

- An increase in sales, marketing and advertising expenses of $1 million or 18.8%, primarily due to higher costs associated with advertising campaigns.

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

Our share-based compensation expense primarily includes amounts allocated to our company, as further described in note 11 to our consolidated financial statements. We recognized share-based compensation expense of $1 million during both 2018 and 2017.

***Business interruption loss recovery***

As further described in *Overview* above and note 6 to our consolidated financial statements, during 2018, insurance claims associated with the Hurricanes were settled resulting in the recognition of business interruption loss recoveries of $49 million. This benefit to our operating income is included in our OCF performance metric as it represents the recovery of operating losses stemming from the Hurricanes, which were also included in our OCF metric.

***Related-party fees and allocations***

We recorded related-party fees and allocations of $5 million during 2018. This amount represents fees charged to our company beginning in the fourth quarter of 2018, but representative of charges incurred since January 1, 2018, that originate with the Related Parties and include charges for management, finance, legal, technology and other corporate and administrative services provided to our subsidiaries.

For additional information regarding our related-party fees and allocations, see note 11 to our consolidated financial statements.

***Depreciation and amortization expense***

Our depreciation and amortization expense decreased $2 million or 1.7% during 2018, as compared to 2017. This decrease is primarily attributable to the net effect of (i) a decrease associated with certain assets becoming fully depreciated, (ii) an increase associated with property and equipment additions, largely related to network restoration activities following the Hurricanes and the installation of customer premises equipment and other capital initiatives, and (iii) an increase associated with a reduction in the estimated average useful life of our customer relationships in the fourth quarter of 2017 resulting from the Hurricanes.

***Impairment, restructuring and other operating items, net***

We recognized impairment, restructuring and other operating items, net, of ($23 million) during 2018, as compared to $91 million during 2017. In December 2018, insurance claims for the Hurricanes were settled, as further described in notes 6 and 11 to our consolidated financial statements, resulting in, among other things, recognizing insurance recoveries of $23 million ($19 million from a third-party and the remainder from the Captive) associated with damaged or destroyed property and equipment.

The charges during 2017 are primarily attributable to impairment charges recorded during the third and fourth quarters of 2017 related to the reduction of the carrying values of our property and equipment and other indefinite-lived intangible assets due to the impacts of the Hurricanes.

For additional information regarding our impairment charges, see note 7 to our consolidated financial statements. For additional information regarding the impacts of the Hurricanes, see *Overview* above.

***Interest expense – third-party***

Our third-party interest expense increased $11 million during 2018, as compared to 2017, primarily due to a higher weighted average interest rate. For additional information regarding our outstanding third-party indebtedness, see note 8 to our consolidated financial statements. It is possible that the interest rates on (i) any new borrowings could be higher than the current interest rates on our existing indebtedness and (ii) our variable-rate indebtedness could increase in future periods. As further discussed in note 4 to our consolidated financial statements, we use derivative instruments to manage our interest rate risks.

***Interest expense – related-party***

Our related-party interest expense increased $6 million during 2018, as compared to 2017, due to the Leo Cable Loan and the Cayman Holding Loan. For additional information regarding our outstanding related-party indebtedness, see note 11 to our consolidated financial statements.

***Other expense, net***

Our other expense, net, was not material during the year ended December 31, 2018 and was $2 million during the year ended December 31, 2017. The expense during the 2017 period is primarily attributable to a loss on debt extinguishment and modification related to the write-off of unamortized discounts and deferred financing costs.

For additional information regarding our loss on debt modification and extinguishment, see note 8 to our consolidated financial statements.

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

Our realized and unrealized gains or losses on derivative instruments include (i) unrealized changes in the fair values of our derivative instruments that are non-cash in nature until such time as the derivative contracts are fully or partially settled and (ii) realized gains or losses upon the full or partial settlement of the derivative contracts. Our realized and unrealized gains (losses) on derivative instruments, net, were $4 million and ($3 million) during 2018 and 2017, respectively. The gains (losses) during 2018 and 2017 are attributable to changes in market interest rates in the U.S. dollar market.

For additional information regarding our derivative instruments, see notes 4 and 5 to our consolidated financial statements.

***Net earnings (loss)***

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

| | Year ended December 31, | |
|---|---|---|
| | **2018** | **2017** |
| | **in millions** | |
| Operating income (loss) | $ 127.1 | $ (46.8) |
| Net non-operating expenses | $ (64.0) | $ (56.7) |
| Net earnings (loss) | $ 63.1 | $ (103.5) |

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

Subject to the limitations included in our various debt instruments, we expect to maintain our debt at current levels. As a result, we expect that we will continue to report significant levels of interest expense for the foreseeable future. For information concerning our expectations with respect to trends that may affect certain aspects of our operating results in future periods, see the discussion in *Overview* above.

## Liquidity and Capital Resources

### *Sources and Uses of Cash*

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.

We had $20 million of cash and cash equivalents at December 31, 2018. The cash provided by our operations was a significant source of pre-hurricane liquidity. As a result of the hurricane impacts, we did not generate positive cash from operations, inclusive of capital expenditures, until the third quarter of 2018. We completed restoration of our broadband communications network during the third quarter of 2018. In connection with our restoration work, we incurred property and equipment additions of approximately $142 million, of which $92 million was incurred during 2018. Our liquidity needs following the Hurricanes were met by (i) insurance advances in 2018 totaling $50 million, (ii) a funding commitment from our indirect owners through December 31, 2018 to fund any potential liquidity shortfalls of up to $60 million, of which $45 million was received in the form of a subordinated related-party loan from Leo Cable, as further described in note 11 to our consolidated financial statements, (iii) $40 million of funding under the LPR Revolving Credit Facility, which was repaid during the fourth quarter of 2018, (iv) beginning in the third quarter of 2018, cash from operations, inclusive of capital expenditures, and (v) the repayment received on the Cayman Holding Receivable. As of December 31, 2018, we expect cash from operations will be sufficient to satisfy our liquidity requirements over the next twelve months.

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

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

### *Capitalization*

During the fourth quarter of 2017, we were provided relief from complying with leverage covenants through December 31, 2018. At December 31, 2018, the outstanding principal amount of our third-party debt aggregated $943 million, of which $850 million is due in 2022 and $93 million is due in 2023. For additional information concerning our debt maturities, see note 8 to our 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. Our ability to access debt financing on favorable terms will be dependent on our ability to comply with the terms of the LPR Bank Facility. 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. For additional information regarding the impacts of the Hurricanes, see the related discussion in *Overview* above.

***Consolidated Statements of Cash Flows***

*Summary.* Our 2018 and 2017 consolidated statements of cash flows are summarized as follows:

| | Year ended December 31, 2018 | Year ended December 31, 2017 | Change |
|---|---|---|---|
| | in millions | | |
| Net cash provided by operating activities | $ 115.6 | $ 67.7 | $ 47.9 |
| Net cash used by investing activities | (181.8) | (90.9) | (90.9) |
| Net cash provided (used) by financing activities | 45.0 | (14.3) | 59.3 |
| Net decrease in cash and cash equivalents | $ (21.2) | $ (37.5) | $ 16.3 |

*Operating Activities.* The increase in net cash provided by our operating activities is primarily attributable to the net effect of (i) an increase from our OCF and related working capital items, which includes the insurance settlement related to the Hurricanes and funding from the FCC, (ii) higher cash payments for interest and (iii) lower cash payments related to derivatives. During 2018, working capital changes of $32 million, as set forth in our consolidated statement of cash flows, include a $27 million insurance receivable associated with the final insurance settlement for the Hurricanes, which was fully received subsequent to December 31, 2018.

*Investing Activities.* The increase in net cash used by our investing activities is attributable to higher capital expenditures that were slightly offset by insurance settlement proceeds related to damaged or destroyed property and equipment as further described in note 6 to our consolidated financial statements.

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

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

| | Year ended December 31, 2018 | Year ended December 31, 2017 |
|---|---|---|
| | in millions | |
| Property and equipment additions | $ 161.9 | $ 132.2 |
| Changes in current liabilities related to capital expenditures | 35.6 | (41.3) |
| Capital expenditures | $ 197.5 | $ 90.9 |

The increase in property and equipment additions is attributable to the net effect of (i) an increase in expenditures of $42 million in connection with network restoration activities following the Hurricanes, and (ii) a decrease in expenditures for (a) the purchase and installation of customer premises equipment and (b) support capital, such as information technology upgrades and general support systems. During 2018 and 2017, our property and equipment additions represented 48.2% and 41.2% of our revenue, respectively. This increase in property and equipment additions as a percentage of revenue is primarily a function of the increase in property and equipment additions following the Hurricanes.

*Financing Activities.* During 2018, we received $45 million in net cash from financing activities, which primarily includes (i) $45 million borrowed under the Leo Cable Loan, (ii) a $40 million repayment of the LPR Revolving Credit Facility and (iii) a partial repayment of $37 million received on the Cayman Holding Receivable. During 2017, we used $14 million in net cash from financing activities, which primarily includes (i) $90 million of net distributions to our Members, (ii) the $40 million draw on the LPR Revolving Credit Facility following the Hurricanes, (iii) $25 million borrowed under the Cayman Holding Loan and (iv) a partial repayment of $12 million received on the Cayman Holding Receivable.

***Contractual Commitments***

The following table sets forth our commitments as of December 31, 2018:

| | Payments due during: | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2023 | Thereafter | Total |
| | | | | in millions | | | |
| Debt (excluding interest) | $ — | $ — | $ — | $ 850.0 | $ 92.5 | $ — | $ 942.5 |
| Operating leases | 1.3 | 1.0 | 0.9 | 0.8 | 0.8 | 1.1 | 5.9 |
| Total (a) | $ 1.3 | $ 1.0 | $ 0.9 | $ 850.8 | $ 93.3 | $ 1.1 | $ 948.4 |
| Projected cash interest payments on third-party debt (b) | $ 70.4 | $ 60.6 | $ 60.5 | $ 11.9 | $ 4.9 | $ — | $ 208.3 |

(a) The commitments included in this table do not reflect any liabilities that are included in our December 31, 2018 consolidated balance sheet other than debt.

(b) Amounts are based on interest rates, interest payment dates, commitment fees and contractual maturities in effect as of December 31, 2018. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. In addition, the amounts presented do not include the impact of our derivative contracts.

For information concerning our debt, see note 8 to our consolidated financial statements. For information concerning our commitments, see note 12 to our consolidated financial statements.

In addition to the commitments set forth in the table above, we have commitments under derivative instruments, pursuant to which we expect to make payments in future periods. For information regarding projected cash flows associated with our derivative instruments, see *Projected Cash Flows Associated with Derivative Instruments* below. For information regarding our derivative instruments, including the net cash paid in connection with these instruments during 2018, 2017 and 2016, see note 4 to our consolidated financial statements.

***Projected Cash Flows Associated with Derivative Instruments***

The following table provides information regarding the projected net cash flows associated with our derivative instruments. The amounts presented below are based on interest rates that were in effect as of December 31, 2018. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. For additional information regarding our derivative instruments, including our counterparty credit risk, see note 4 to our consolidated financial statements.

| | Payments (receipts) due during: | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | Thereafter | Total |
| | | | in millions | | | |
| Interest-related (a) | $ (10.6) | $ 7.6 | $ (2.2) | $ (0.6) | $ — | $ (5.8) |

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