LIBERTY CABLEVISION
OF PUERTO RICO LLC

Condensed Consolidated Financial Statements
September 30, 2018

LIBERTY CABLEVISION OF PUERTO RICO LLC

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San Juan, Puerto Rico
00918-1485

LIBERTY CABLEVISION OF PUERTO RICO LLC

TABLE OF CONTENTS

LIBERTY CABLEVISION OF PUERTO RICO LLC

CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	September 30, 2018	December 31, 2017
	in millions	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 32.1	$ 41.0
Trade receivables, net of allowances of $9.8 million and $10.8 million, respectively	21.6	10.5
Prepaid expenses	11.8	5.9
Other current assets	13.4	7.3
Total current assets	78.9	64.7
Property and equipment, net	485.9	400.8
Goodwill	277.7	277.7
Cable television franchise rights	540.0	540.0
Customer relationships, net	73.0	86.7
Other assets, net	14.0	4.0
Total assets	$ 1,469.5	$ 1,373.9
LIABILITIES AND MEMBERS' CAPITAL		
Current liabilities:		
Accounts payable	$ 31.8	$ 18.1
Deferred revenue	10.5	8.1
Accrued capital expenditures	33.6	61.8
Third-party accrued interest	13.0	10.9
Insurance advance	50.1	—
Other accrued and current liabilities	20.6	18.4
Total current liabilities	159.6	117.3
Long-term debt:		
Third-party	973.1	971.2
Related-party	70.2	25.0
Other long-term liabilities	5.6	4.7
Total liabilities	1,208.5	1,118.2
Commitments and contingencies		
Members' capital:		
Members' capital	316.7	311.4
Cayman Holding Receivable	(55.7)	(55.7)
Members' capital after deducting loan receivable from member	261.0	255.7
Total liabilities and members' capital	$ 1,469.5	$ 1,373.9

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

LIBERTY CABLEVISION OF PUERTO RICO LLC

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
	in millions			
Revenue	$ 99.6	$ 88.6	$ 241.7	$ 303.6
Operating costs and expenses (exclusive of depreciation and amortization, shown separately below):				
Programming and other direct costs of services	21.3	21.7	57.5	76.3
Other operating	14.1	15.1	41.0	45.4
Selling, general and administrative (**SG&A**)	14.5	12.4	40.3	38.4
Depreciation and amortization	23.0	21.3	64.1	62.6
Impairment, restructuring and other operating items, net	0.4	86.1	(0.6)	86.1
	73.3	156.6	202.3	308.8
Operating income (loss)	26.3	(68.0)	39.4	(5.2)
Non-operating income (expense):				
Interest expense:				
Third-party	(15.6)	(12.2)	(45.8)	(37.0)
Related-party	(1.8)	—	(3.9)	—
Realized and unrealized gains (losses) on interest rate derivative instruments, net	2.7	—	15.3	(6.8)
Other expense, net	(0.2)	—	—	(2.6)
	(14.9)	(12.2)	(34.4)	(46.4)
Net earnings (loss)	$ 11.4	$ (80.2)	$ 5.0	$ (51.6)

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

LIBERTY CABLEVISION OF PUERTO RICO LLC

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' CAPITAL
(unaudited)

	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, 2018, before effect of accounting change	$ 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	—	5.0	5.0	—	5.0
Priority Return	7.8	(7.8)	—	—	—
Capital charge in connection with exercise or release of share-based incentive awards	—	(0.4)	(0.4)	—	(0.4)
Share-based compensation	—	0.8	0.8	—	0.8
Balance at September 30, 2018	$ 222.3	$ 94.4	$ 316.7	$ (55.7)	$ 261.0

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

LIBERTY CABLEVISION OF PUERTO RICO LLC

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine months ended September 30,	
	2018	**2017**
	in millions	
Cash flows from operating activities:		
Net earnings (loss)	$ 5.0	$ (51.6)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Share-based compensation expense	0.8	1.2
Depreciation and amortization	64.1	62.6
Impairment, restructuring and other operating items, net	(0.6)	86.1
Amortization of debt financing costs and discounts	1.9	1.9
Realized and unrealized losses (gains) on interest rate derivative instruments, net	(15.3)	6.8
Loss on debt modification and extinguishment	—	2.8
Insurance advance	50.1	—
Changes in other operating assets and liabilities	7.8	(18.1)
Net cash provided by operating activities	113.8	91.7
Cash flows from investing activities:		
Capital expenditures	(167.7)	(69.9)
Net cash used by investing activities	(167.7)	(69.9)
Cash flows from financing activities:		
Distributions to Members, net	—	(65.1)
Repayments of third-party debt and capital lease obligations	—	(0.2)
Borrowings of related-party debt	45.0	—
Payments received on the Cayman Holding Receivable	—	12.3
Payment of financing costs	—	(1.3)
Net cash provided (used) by financing activities	45.0	(54.3)
Net decrease in cash and cash equivalents	(8.9)	(32.5)
Cash and cash equivalents:		
Beginning of period	41.0	78.5
End of period	$ 32.1	$ 46.0
Cash paid for interest - third-party	$ 41.8	$ 36.4

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

(1) Basis of Presentation

Organization

Liberty Cablevision of Puerto Rico LLC (**Liberty Puerto Rico**) is a provider of video, broadband internet and fixed-line telephony services to residential and business customers in Puerto Rico. Liberty Puerto Rico was formed in connection with a series of transactions with certain investment funds affiliated with Searchlight Capital Partners L.P. (collectively, **Searchlight**) that were completed on November 8, 2012. On June 3, 2015, our parent company, LCPR Cayman Holding Inc. (**Cayman Holding**), together with Searchlight, entered into an agreement to purchase Puerto Rico Cable Acquisition Company Inc., doing business as Choice Cable TV (**Choice**). Through a series of related-party transactions, Liberty Puerto Rico became the parent company of Choice. LiLAC Communications, Inc. (**LiLAC Communications**) indirectly owns a 60.0% controlling interest in Liberty Puerto Rico, with the remaining 40.0% interest indirectly owned by Searchlight. LiLAC Communications is a wholly-owned subsidiary of Liberty Latin America Ltd. (**Liberty Latin America**), an international provider of video, broadband internet, fixed-line telephony and mobile services. 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.

Split-Off of Liberty Latin America from Liberty Global

Prior to the Split-Off, as further described below, we were an indirectly 60.0% owned subsidiary of Liberty Global plc (**Liberty Global**). On December 29, 2017, Liberty Global completed the split-off (the **Split-Off**) of its former wholly-owned subsidiary Liberty Latin America, which primarily included (i) Cable & Wireless Communications Limited (**C&W**) and its subsidiaries, (ii) VTR Finance B.V. (**VTR**) and its subsidiaries and (iii) LiLAC Communications and its subsidiaries. As a result of the Split-Off, Liberty Latin America became an independent, publicly traded company, and its assets and liabilities as of the time of the Split-Off consisted of the businesses, assets and liabilities that were formerly attributed to Liberty Global's "LiLAC Group."

Financial Condition

In September 2017, the island of Puerto Rico was significantly impacted by Hurricanes Maria and, to a lesser extent, Irma, resulting in extensive damage to homes, businesses and infrastructure, including damage to Puerto Rico's power supply and transmission system. Similarly, our broadband communications network suffered extensive damage. As of September 30, 2018, we completed the restoration of our broadband communications network. In connection with our restoration work, we incurred approximately $142 million in property and equipment additions. As of September 30, 2018, we are providing service to 698,600 revenue generating units (**RGU**s), as compared with 803,500 RGUs at August 31, 2017. Contributing to this decline in RGUs are non-organic adjustments totaling 57,200 RGUs that represent subscribers in areas where we have not restored the network.

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 three months ended September 30, 2018. In this regard, our liquidity needs following the hurricanes have included a funding commitment from our indirect owners through December 31, 2018 of up to $60 million to cover any potential liquidity shortfalls. We have received a total of $45 million of this commitment in the form of a subordinated related-party loan from Leo Cable LP (**Leo Cable**), the parent company of Cayman Holding, as further described in note 8. Our liquidity needs following the hurricanes have also been funded by insurance advances totaling $50 million ($45 million through a third-party insurance provider and the remainder through the Captive, as defined and described in note 8) and beginning in the third quarter of 2018, cash from operations, inclusive of capital expenditures. Future liquidity sources may include (i) further insurance proceeds, (ii) the remaining $15 million of the aforementioned commitment and (iii) cash from operations. While no assurance can be given as to the ultimate amount or timing of liquidity to be received from insurance proceeds, we expect our existing and potential sources of liquidity will be sufficient to satisfy our liquidity requirements over the next twelve months.

Basis of Presentation

Our unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (**U.S. GAAP**). Accordingly, these financial statements do not include all of the information required by U.S. GAAP for complete financial statements. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the results of operations for the interim periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2017 annual report.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates and assumptions are used in accounting for, among other things, the valuation of acquisition-related assets and liabilities, allowances for uncollectible accounts, programming and copyright 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.

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

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

These unaudited condensed consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through November 19, 2018, 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 7) 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 condensed consolidated financial statements for the periods ending September 30, 2018.

Our revenue by major category is set forth below:

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
	in millions			
Residential fixed revenue:				
Subscription revenue (a):				
Video	$ 32.2	$ 34.7	$ 85.3	$ 120.1
Broadband internet	36.0	35.0	93.7	116.9
Fixed-line telephony	5.1	5.8	13.2	18.5
Total subscription revenue	73.3	75.5	192.2	255.5
Non-subscription revenue (b)	4.0	4.2	9.1	16.1
Total residential fixed revenue	77.3	79.7	201.3	271.6
Business-to-business (**B2B**) revenue:				
Subscription revenue (c)	5.8	3.7	15.2	17.2
Non-subscription revenue (d)	4.3	3.5	11.3	10.6
Total B2B revenue	10.1	7.2	26.5	27.8
Other revenue (e)	12.2	1.7	13.9	4.2
Total	$ 99.6	$ 88.6	$ 241.7	$ 303.6

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

(b) Residential fixed non-subscription revenue includes, among other items, advertising revenue and late fees.

(c) B2B subscription revenue represents revenue from services to certain small or home office (**SOHO**) subscribers. SOHO subscribers pay a premium price to receive expanded service levels along with video, broadband internet or fixed-line telephony services that are the same or similar to the mass marketed products offered to our residential subscribers.

(d) B2B non-subscription revenue primarily includes business broadband internet, video, fixed-line telephony and data services offered to medium to large enterprises and, on a wholesale basis, to other telecommunication operators.

(e) For the 2018 periods, other revenue includes $11 million received from the U.S. Federal Communications Commission (the **FCC**), which was 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. Other revenue also includes franchise fees.

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 September 30, 2018, we have removed certain fair value measurement disclosures from our condensed 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 the opening balance of 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 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 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.

For a summary of our undiscounted future minimum lease payments under non-cancellable operating leases as of September 30, 2018, see note 9. We currently do not expect ASU 2016-02 to have a significant impact on our consolidated statements of operations or cash flows.

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) 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 contracts are recorded in realized and unrealized gains or losses on interest rate derivative instruments in our condensed consolidated statements of operations.

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

	September 30, 2018			December 31, 2017		
	Current (a)	Long-term (a)	Total	Current (a)	Long-term (a)	Total
	in millions					
Assets (b)	$ 1.0	$ 10.7	$ 11.7	$ —	$ 0.7	$ 0.7
Liabilities (b)	$ —	$ —	$ —	$ 4.3	$ 2.8	$ 7.1

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

(b) We consider credit risk relating to our and our 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, which were not material during each of the three and nine months ended September 30, 2018 and 2017, are included in realized and unrealized gains (losses) on interest rate derivative instruments, net, in our condensed consolidated statements of operations. For further information regarding our fair value measurements, see note 4.

Our cash outflows related to derivative instruments during the nine months ended September 30, 2018 and 2017, were $3 million and $7 million, respectively, and are classified as operating activities in our condensed 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 September 30, 2018, our exposure to counterparty credit risk included derivative assets with an aggregate fair value of $12 million.

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

Details of our Derivative Instruments

Interest Rate 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 September 30, 2018, the outstanding notional amount of our interest rate swap contracts was $675 million and the related weighted average remaining contractual life was 2.5 years.

Interest Rate Caps

We enter into interest rate cap agreements that lock in a maximum interest rate if variable rates rise, but also allow our company to benefit from declines in market rates. At September 30, 2018, the total notional amount of our interest rate caps, which includes forward-starting instruments, was $436 million.

Impact of Derivative Instruments on Borrowing Costs

The impact of derivative instruments, excluding forward-starting derivative instruments, on our borrowing costs at September 30, 2018 was an increase of 1 basis point.

(4) Fair Value Measurements

We use the fair value method to account for our derivative instruments. The reported fair values of our derivative instruments as of September 30, 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.

In order to manage our interest rate risk, we have entered into various derivative instruments, as further described in note 3. 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 swaps are quantified and further explained in note 3.

(5) Long-lived Assets

Property and Equipment, Net

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

	September 30, 2018	December 31, 2017
	in millions	
Distribution systems	$ 777.2	$ 644.8
Support equipment, buildings and land	68.9	65.8
	846.1	710.6
Accumulated depreciation	(360.2)	(309.8)
Total	$ 485.9	$ 400.8

Customer Relationships, Net

The details of our customer relationships and the related accumulated amortization are set forth below:

	September 30, 2018	December 31, 2017
	in millions	
Gross carrying amount	$ 149.1	$ 149.1
Accumulated amortization	(76.1)	(62.4)
Net carrying amount	$ 73.0	$ 86.7

Goodwill

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

Impairment Charges Associated with Hurricanes

In September 2017, our operations were severely impacted by Hurricanes Maria and, to a lesser extent, Irma. As a result of the damage caused by these hurricanes, we recorded impairment charges to reduce the carrying values of our property and equipment and cable television franchise rights during the third quarter of 2017, 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 condensed consolidated financial statements.

Property and equipment (a)	$ 42.0
Cable television franchise rights (b)	44.1
Total	$ 86.1

(a) Amount represents estimated impairments recorded in order to write-off the net carrying amount of certain property and equipment that was damaged beyond repair.

(b) We concluded that an impairment charge was necessary to reduce the carrying value of our cable television franchise rights to their estimated fair value at September 30, 2017.

(6) Debt

Our third-party debt obligations are as follows:

	September 30, 2018		Estimated fair value (c)		Principal amount	
	Weighted average interest rate (a)	Unused borrowing capacity (b)	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
			in millions			
Third-party debt before discounts and deferred financing costs (d)	6.14%	$ —	$ 963.5	$ 951.8	$ 982.5	$ 982.5

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

	September 30, 2018	December 31, 2017
	in millions	
Third-party debt before discounts and deferred financing costs	$ 982.5	$ 982.5
Discounts and deferred financing costs	(9.4)	(11.3)
Total carrying amount of third-party debt	973.1	971.2
Related-party debt (note 8)	70.2	25.0
Total long-term debt	$ 1,043.3	$ 996.2

(a) Represents the weighted average interest rate in effect at September 30, 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, the weighted average interest rate on our third-party indebtedness was 6.2% at September 30, 2018. For information regarding our derivative instruments, see note 3.

(b) Unused borrowing capacity represents the maximum availability under the LPR Revolving Loan at September 30, 2018 without regard to covenant compliance calculations or other conditions precedent to borrowing. At September 30, 2018, no amounts were available to be borrowed under the LPR Revolving Loan.

(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 concerning fair value hierarchies, see note 4.

(d) Represents the Liberty Puerto Rico Bank Facility, which consists of (i) the LPR First Lien Term Loan, (ii) the LPR Second Lien Term Loan and (iii) the LPR Revolving Loan.

Maturities of Debt

As of September 30, 2018, $40 million, $850 million and $93 million of our debt matures in 2020, 2022 and 2023, respectively.

(7) Members' Capital

Liberty Puerto Rico is a limited liability company. We have two Members, a Class A Preferred Unit Member (**Class A Preferred Member**) and a Class B Common Unit Member (**Class B Common Member**). Our limited liability company agreement (the **LLC Agreement**) requires any distribution to our Members be made in the following order of priority: (i) 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 condensed 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 Priority Returns accrued through September 30, 2018 was $2 million.

(8) Related-party Transactions

Our related-party transactions are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	in millions			
Revenue	$ 0.5	$ 0.3	$ 1.2	$ 0.6
Programming and other direct costs of services	(0.8)	(1.5)	(3.4)	(3.0)
SG&A (excluding share-based compensation)	—	—	(0.5)	(0.3)
Allocated share-based compensation expense	(0.3)	(0.2)	(0.8)	(0.6)
Included in operating income (loss)	(0.6)	(1.4)	(3.5)	(3.3)
Interest expense	(1.8)	—	(3.9)	—
Included in net earnings (loss)	$ (2.4)	$ (1.4)	$ (7.4)	$ (3.3)
Capital expenditures	$ 0.2	$ —	$ 0.6	$ —

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

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

SG&A. These amounts represent 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 are reflected as an increase to members' capital in our condensed consolidated statement of changes in members' capital. Prior to the Split-Off, share-based compensation expense was allocated to us by Liberty Global.

Interest expense. This amount relates to the Cayman Holding Loan and the Leo Cable Loan, each as defined and described below.

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

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

	September 30, 2018	December 31, 2017
	in millions	
Assets:		
Other current assets (a)	$ 1.0	$ 0.8
Other assets, net (b)	1.4	1.4
Total assets	$ 2.4	$ 2.2
Liabilities:		
Accounts payable (c)	$ 10.1	$ 5.8
Insurance advance (d)	5.5	—
Other accrued and current liabilities (e)	0.6	—
Debt:		
Cayman Holding Loan (f)	25.2	25.0
Leo Cable Loan (g)	45.0	—
Other long-term liabilities (h)	3.9	0.2
Total liabilities	$ 90.3	$ 31.0

(a) The amounts represent the estimated probable insurance recoveries that will ultimately be the obligation of a captive insurance subsidiary of C&W (the **Captive**).

(b) The amounts represent various non-interest bearing related-party receivables.

(c) The amounts represent various non-interest bearing related-party payables.

(d) The amount represents an insurance advance received through the Captive.

(e) The amount represents various non-interest bearing related-party liabilities.

(f) 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 Liberty Puerto Rico 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 nine months ended September 30, 2018 relates to a non-cash transfer of accrued interest.

(g) On February 26, 2018, as part of the commitment further described in note 1, we entered into a $25 million loan agreement with Leo Cable (the **Leo Cable Loan**), which is subordinate in right of payment to the Liberty Puerto Rico 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.

(h) The 2018 amount represents accrued and unpaid interest on the Cayman Holding Loan and the Leo Cable 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, there have been no principal or interest payments on the Cayman Holding Receivable.

(9) Commitments and Contingencies

Commitments

In the normal course of business, we have entered into agreements that commit our company to make cash payments in future periods with respect to network and connectivity commitments and non-cancellable operating leases. As of September 30, 2018, such commitments are as follows:

	Payments due during:							
	Remainder of 2018	2019	2020	2021	2022	2023	Thereafter	Total
	in millions							
Network and connectivity commitments (a)	$ 0.1	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 1.8	$ 4.9
Operating leases	0.4	1.4	1.2	0.9	0.8	0.8	1.1	6.6
Total (b)	$ 0.5	$ 2.0	$ 1.8	$ 1.5	$ 1.4	$ 1.4	$ 2.9	$ 11.5

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

(b) The commitments included in this table do not reflect any liabilities that are included in our September 30, 2018 condensed 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 $50 million and $67 million during the nine months ended September 30, 2018 and 2017, respectively.

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 the nine months ended September 30, 2018 and 2017, see note 3.

Legal and Regulatory Proceedings and Other Contingencies

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

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

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

The following discussion and analysis, which should be read in conjunction with our condensed consolidated financial statements and the discussion and analysis included in our 2017 annual report, is intended to assist in providing an understanding of our financial condition, changes in financial condition and results of operations and is organized as follows:

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

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

- *Material Changes in Results of Operations.* This section provides an analysis of our results of operations for the three and nine months ended September 30, 2018 and 2017.

- *Material Changes in Financial Condition.* This section provides an analysis of our liquidity, condensed consolidated statements of cash flows and contractual commitments.

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

Forward-looking Statements

Certain statements in this quarterly report constitute forward-looking statements. To the extent that statements in this quarterly report are not recitations of historical fact, such statements constitute forward-looking statements, which, by definition, involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. In particular, statements under *Management's Discussion and Analysis of Financial Condition and Results of Operations* may contain forward-looking statements, including statements regarding the economic environment in Puerto Rico; our business, product and finance strategies in 2018; the anticipated rate and cost of our recovery from the impact of Hurricanes Maria and Irma, including our estimated property and equipment additions, our insurance proceeds, and the impacts of these hurricanes on our ability to generate positive cash from operations; programming and copyright costs; subscriber growth and retention rates; competitive, regulatory and economic factors; anticipated changes in our revenue, costs or growth rates; our liquidity and credit and interest rate risks, including existing and potential sources of liquidity and that such liquidity will be sufficient to satisfy our requirements over the next 12 months; target leverage level; compliance with debt covenants; 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 inflation rates and 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;
- 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, including third-party channel providers and broadcasters, 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 and contingencies, including resolution of those contingencies;
- 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 or insurance proceeds;
- 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; and
- events that are outside of our control, such as political unrest, 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 quarterly report are subject to a significant degree of risk. These forward-looking statements and the above described risks, uncertainties and other factors speak only as of the date of this quarterly report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based. Readers are cautioned not to place undue reliance on any forward-looking statement.

Overview

General

We are a provider of video, broadband internet and fixed-line telephony services to residential and business customers in Puerto Rico. LiLAC Communications indirectly owns a 60.0% controlling interest in Liberty Puerto Rico, with the remaining 40.0% interest indirectly owned by Searchlight. LiLAC Communications is a wholly-owned subsidiary of Liberty Latin America, an international provider of video, broadband internet, fixed-line telephony and mobile services. 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. On December 29, 2017, Liberty Global completed the Split-Off of its former wholly-owned subsidiary Liberty Latin America. For additional information regarding the Split-Off, see note 1 to our condensed consolidated financial statements.

Operations

At September 30, 2018, we owned and operated a network that passed 1,076,900 homes and served 698,600 RGUs, comprising 304,900 broadband internet subscribers, 208,100 video subscribers and 185,600 fixed-line telephony subscribers. For information relating to non-organic adjustments, see below.

Impacts of Hurricanes

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. Hurricanes Maria and Irma also caused significant damage in certain markets within C&W (collectively with Liberty Puerto Rico, the **Impacted Markets**). At the time of Hurricanes Irma and Maria, Liberty Latin America maintained an integrated group property and business interruption insurance program covering all of its markets, including the Impacted Markets, with a limit of up to $75 million per occurrence, which is generally subject to self-insurance of $15 million per occurrence, of which up to $3 million is generally the responsibility of the Impacted Markets. Although the management of Liberty Latin America is continuing to assess the alternatives under this insurance policy, they currently believe that the hurricanes will result in at least two occurrences for the Impacted Markets. This policy is subject to the normal terms and conditions applicable to this type of insurance. We expect that the insurance recovery will only cover a portion of the incurred losses of our business.

During the nine months ended September 30, 2018, we received insurance advances totaling $50 million ($45 million through a third-party insurance provider and the remainder through the Captive) associated with the initial insurance claims filed in connection with damages sustained from the hurricanes. Until such claims are legally settled, the advances are presented as a current liability in our condensed consolidated balance sheet.

The damage caused by Hurricanes Maria and, to a lesser extent, Irma was extensive and widespread. In connection with these hurricanes, we experienced adverse impacts to our revenue, Segment OCF, as defined in *Material Changes in Results of Operations*, and RGUs during 2018 and the 2017 periods after the hurricanes. As of September 30, 2018, we completed the restoration of our broadband communications network. In connection with our restoration work, we incurred approximately $142 million in property and equipment additions. As of September 30, 2018, we are providing service to 698,600 RGUs, as compared with 803,500 RGUs at August 31, 2017. Contributing to this decline in RGUs are non-organic adjustments totaling 57,200 RGUs that represent subscribers in areas where we have not restored the network.

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 three months ended September 30, 2018. In this regard, our liquidity needs following the hurricanes have included a funding commitment from our indirect owners through December 31, 2018 of up to $60 million to cover any potential liquidity shortfalls. We have received a total of $45 million of this commitment in the form of a subordinated related-party loan from Leo Cable, as further described in note 8 to our condensed consolidated financial statements. Our liquidity needs following the hurricanes have also been funded by insurance advances totaling $50 million ($45 million through a third-party insurance provider and the remainder through the Captive) and beginning in the third quarter of 2018, cash from operations, inclusive of capital expenditures. Future liquidity sources may include (i) further insurance proceeds, (ii) the remaining $15 million of the aforementioned commitment and (iii) cash from operations. While no assurance can be given as to the ultimate amount or timing of liquidity to be received from insurance proceeds, we expect our existing and potential sources of liquidity will be sufficient to satisfy our liquidity requirements over the next twelve months. For information regarding the impacts of Hurricanes Irma and Maria on our cash flows and liquidity, see note 1 to our condensed consolidated financial statements and the discussion under "*Material Changes in Financial Condition — Sources and Uses of Cash*" below.

Material Changes in Results of Operations

General

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

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

Revenue

We derive our revenue primarily from (i) residential communications 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 the three and nine months ended September 30, 2018, as compared to the corresponding periods in 2017, were significantly impacted by Hurricanes Maria and Irma.

As further described in note 2 to our condensed consolidated financial statements, we adopted ASU 2014-09 effective January 1, 2018 using the cumulative effect transition method. The impacts to total revenue during the three and nine months ended September 30, 2018 were 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 September 30, 2018, June 30, 2018 and September 30, 2017 and (ii) nine months ended September 30, 2018 and 2017 is set forth below:

	Three months ended			Nine months ended	
	September 30, 2018	June 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
			in millions		
Residential fixed revenue:					
Subscription revenue:					
Video	$ 32.2	$ 29.8	$ 34.7	$ 85.3	$ 120.1
Broadband internet	36.0	32.4	35.0	93.7	116.9
Fixed-line telephony	5.1	4.6	5.8	13.2	18.5
Total subscription revenue	73.3	66.8	75.5	192.2	255.5
Non-subscription revenue	4.0	3.4	4.2	9.1	16.1
Total residential fixed revenue	77.3	70.2	79.7	201.3	271.6
B2B revenue:					
Subscription revenue	5.8	5.1	3.7	15.2	17.2
Non-subscription revenue	4.3	4.0	3.5	11.3	10.6
Total B2B revenue	10.1	9.1	7.2	26.5	27.8
Other revenue	12.2	1.0	1.7	13.9	4.2
Total	$ 99.6	$ 80.3	$ 88.6	$ 241.7	$ 303.6

Our revenue increased (decreased) $11 million and ($62 million) during the three and nine months ended September 30, 2018, respectively, as compared to the corresponding periods in 2017. These changes include an increase associated with $11 million received in August 2018 from the FCC. The FCC granted these funds to help restore and improve coverage and service quality from damages caused by Hurricanes Irma and Maria. Excluding the impact of the FCC funding, revenue for the three-month comparison remained relatively flat as a decrease in revenue attributable to a lower average number of RGUs, as further explained in *Overview* above, was offset by an increase in revenue from SOHO and business data services. Excluding the impact of the FCC funding, the decrease in revenue for the nine-month comparison is primarily attributable to 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 revenue and (iv) other revenue, each reflective of changes during the three months ended September 30, 2018, as compared to the three months ended June 30, 2018.

	Subscription revenue	Non-subscription revenue	Total
		in millions	
Increase (decrease) in residential fixed subscription revenue due to change in:			
Average number of RGUs (a)	$ 7.2	$ —	$ 7.2
ARPU	(0.7)	—	(0.7)
Increase in residential fixed non-subscription revenue	—	0.6	0.6
Total increase in residential fixed revenue	6.5	0.6	7.1
Increase in B2B revenue	0.7	0.3	1.0
Increase in other revenue (b)	—	11.2	11.2
Total	$ 7.2	$ 12.1	$ 19.3

(a) The increase is attributable to increases in broadband internet, video and fixed-line telephony 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 increase 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 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 were $21 million and $22 million during the three months ended September 30, 2018 and 2017, respectively, and $58 million and $76 million during the nine months ended September 30, 2018 and 2017, respectively. The three months ended September 30, 2018 and 2017 include credits received from programming vendors stemming from Hurricanes Maria and Irma of $1 million and $4 million, respectively. The slight decrease in programming and other direct costs for the three-month comparison primarily reflects the impact of a lower average number of enhanced video subscribers of $3 million, largely offset by the impact of fewer credits received during the 2018 period. The nine months ended September 30, 2018 and 2017 include credits received from programming vendors stemming from Hurricanes Maria and Irma of $11 million and $4 million, respectively. The decrease in programming and other direct costs of services for the nine-month comparison reflects the combined impact of a lower average number of enhanced video subscribers of $11 million and higher credits received during the 2018 period.

Other operating expenses

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

Our other operating expenses decreased $1 million or 6.6% and $4 million or 9.7% during the three and nine months ended September 30, 2018, respectively, as compared to the corresponding periods in 2017. These decreases are primarily due to the net effect of lower various indirect expenses of approximately $1 million and $4 million, respectively, predominantly related to (i) lower bad debt expense, (ii) for the nine-month comparison, lower franchise fees and network-related expenses, and (iii) higher call center costs, all as a result of the hurricanes. In addition, for the nine month comparison, we experienced slightly higher personnel costs of $2 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, external sales and marketing costs, share-based compensation and other general expenses.

Our SG&A expenses (exclusive of share-based compensation expense) increased $2 million or 16.4% and $2 million or 6.2% during the three and nine months ended September 30, 2018, respectively, as compared to the corresponding periods in 2017. These increases include the following factors:

- Increases of $1 million for each of the comparative periods related to higher insurance premiums;
- For the nine-month comparison, an increase in sales, marketing and advertising expenses of $1 million or 16.7%, primarily due to higher costs associated with advertising campaigns; and
- Increases in personnel costs of $1 million or 14.5% and $1 million or 3.2%, respectively, mostly driven by higher sales commissions. In addition, the nine-month comparison 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.

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 8 to our condensed consolidated financial statements. Share-based compensation expense during each of the three months ended September 30, 2018 and 2017 was not material. We recognized share-based compensation expense of $1 million during each of the nine months ended September 30, 2018 and 2017.

Depreciation and amortization expense

Our depreciation and amortization expense increased $2 million or 8.0% and $2 million or 2.4% during the the three and nine months ended September 30, 2018, respectively, as compared to the corresponding periods in 2017. These increases are primarily due to the net effect of (i) increases 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, (ii) increases associated with a reduction in the estimated average useful life of our customer relationships in the fourth quarter of 2017 resulting from the hurricanes and (iii) decreases associated with certain assets becoming fully depreciated.

Impairment, restructuring and other operating items, net

Our impairment, restructuring and other operating items, net, were not material during each of the three and nine months ended September 30, 2018. During each of the three and nine months ended September 30, 2017, we recognized impairment, restructuring and other operating items, net, of $86 million attributable to impairment charges recorded during the third quarter related to the reduction of the carrying values of our property and equipment and other indefinite-lived intangible assets due to the impacts of Hurricanes Irma and Maria. For additional information regarding the impairment charges related to Hurricanes Irma and Maria, see notes 4 and 5 to our condensed consolidated financial statements. For additional information regarding the impacts of Hurricanes Irma and Maria, see *Overview* above.

Interest expense – third-party

Our third-party interest expense increased $3 million and $9 million during the three and nine months ended September 30, 2018, respectively, as compared to the corresponding periods in 2017, primarily due to (i) a higher weighted average interest rate and (ii) higher average outstanding debt balances. For additional information regarding our outstanding third-party indebtedness, see note 6 to our condensed consolidated financial statements.

Interest expense – related-party

Our related-party interest expense increased $2 million and $4 million during the three and nine months ended September 30, 2018, respectively, as compared to the corresponding periods in 2017, due to the Leo Cable Loan and the Cayman Holding Loan. For additional information regarding our outstanding related-party indebtedness, see note 8 to our condensed consolidated financial statements.

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

Our realized and unrealized gains or losses on interest rate 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 interest rate derivative instruments, net, were $3 million and nil during the three months ended September 30, 2018 and 2017, respectively, and $15 million and ($7 million) during the nine months ended September 30, 2018 and 2017, respectively. The gains (losses) during the three and nine months ended September 30, 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 3 and 4 to our condensed consolidated financial statements.

Other expense, net

Our other expense, net, was not material during each of the three and nine months ended September 30, 2018 and was nil and $3 million during the three and nine months ended September 30, 2017, respectively. The expense for the nine months ended September 30, 2017 is primarily attributable to a loss on debt extinguishment and modification related to the write-off of unamortized discount and deferred financing costs.

Net earnings (loss)

During the three months ended September 30, 2018 and 2017, we reported net earnings (loss) of $11 million and ($80 million), respectively, including (i) operating income (loss) of $26 million and ($68 million), respectively, and (ii) net non-operating expenses of $15 million and $12 million, respectively.

During the nine months ended September 30, 2018 and 2017, we reported net earnings (loss) of $5 million and ($52 million), respectively, including (i) operating income (loss) of $39 million and ($5 million), respectively, and (ii) net non-operating expenses of $34 million and $46 million, respectively.

Gains or losses associated with changes in the fair values of derivative instruments are subject to a high degree of volatility and, as such, any gains from this source do not represent a reliable source of income. In the absence of significant net 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 Segment OCF to a level that more than offsets the aggregate amount of our (i) share-based compensation expense, (ii) depreciation and amortization, (iii) impairment, restructuring and other operating items, net, (iv) interest expense and (v) other 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 the impacts of the hurricanes on our expectations with respect to trends that may affect certain aspects of our operating results in future periods, see the discussion in *Overview* above.

Material Changes in Financial Condition

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 contingent liabilities.

We had $32 million of cash and cash equivalents at September 30, 2018. In addition to our existing cash and cash equivalents, the primary sources of our pre-hurricane liquidity were cash provided by operations and borrowings available under the Liberty Puerto Rico Bank Facility, as further described in note 6 to our condensed consolidated financial statements. As a result of the hurricane impacts, we did not generate positive cash from operations, inclusive of capital expenditures, until the three months ended September 30, 2018. As of September 30, 2018, we completed the restoration of our broadband communications network. In connection with our restoration work, we incurred approximately $142 million in property and equipment additions. Our liquidity needs following the hurricanes have included a funding commitment from our indirect owners through December 31, 2018 of up to $60 million to cover any potential liquidity shortfalls. We have received a total of $45 million of this commitment in the form of a subordinated related-party loan from Leo Cable, as further described in note 8 to our condensed consolidated financial statements. Our liquidity needs following the hurricanes have also been funded by insurance advances totaling $50 million ($45 million through a third-party insurance provider and the remainder through the Captive) and beginning in the third quarter of 2018, cash from operations, inclusive of capital expenditures. Future liquidity sources may include (i) further insurance proceeds, (ii) the remaining $15 million of the aforementioned commitment and (iii) cash from operations. While no assurance can be given as to the ultimate amount or timing of liquidity to be received from insurance proceeds, we expect our existing and potential sources of liquidity will be sufficient to satisfy our liquidity requirements over the next twelve months.

For additional information concerning our cash flows, see the discussion under *Condensed 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 September 30, 2018, the outstanding principal amount of our third-party debt aggregated $983 million, of which $40 million is due in 2020 and $943 million is due in 2022 or thereafter. For additional information concerning our debt maturities, see note 6 to our condensed consolidated financial statements.

Our ability to generate cash from our operations will depend on our future operating performance, which is in turn dependent, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control. Our ability to access debt financing on favorable terms will be dependent on our liquidity and ability to comply with the terms of the Liberty Puerto Rico 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.

Condensed Consolidated Statements of Cash Flows

Summary. Our condensed consolidated statements of cash flows for the nine months ended September 30, 2018 and 2017 are summarized as follows:

	Nine months ended September 30, 2018	Nine months ended September 30, 2017	Change
	in millions		
Net cash provided by operating activities	$ 113.8	$ 91.7	$ 22.1
Net cash used by investing activities	(167.7)	(69.9)	(97.8)
Net cash provided (used) by financing activities	45.0	(54.3)	99.3
Net decrease in cash and cash equivalents	$ (8.9)	$ (32.5)	$ 23.6

Operating Activities. The increase in net cash provided by our operating activities is primarily attributable to the net effect of (i) an increase from working capital items, inclusive of advance payments totaling $50 million associated with the initial insurance claims filed in connection with damages sustained from the hurricanes, and (ii) a decrease from our Segment OCF, primarily resulting from the adverse impacts of the hurricanes, which were partially offset by the receipt of $11 million from the FCC in August 2018.

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

The capital expenditures that we report in our condensed 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 this discussion, we refer to (i) our capital expenditures, as reported in our condensed consolidated statements of cash flows, and (ii) our total property and equipment additions, which include our capital expenditures on an accrual basis and amounts financed under capital lease arrangements.

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

	Nine months ended September 30,	
	2018	2017
	in millions	
Property and equipment additions	$ 139.5	$ 65.6
Changes in current liabilities related to capital expenditures	28.2	4.3
Capital expenditures	$ 167.7	$ 69.9

The increase in property and equipment additions is attributable to the net effect of (i) an increase in expenditures primarily related to $92 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.

Financing Activities. During the nine months ended September 30, 2018, we received $45 million in net cash from financing activities related to the funding commitment further described in notes 1 and 8 to our condensed consolidated financial statements. During the nine months ended September 30, 2017, we used $54 million in net cash from financing activities, which primarily includes distributions to Members, net of $65 million and partial repayments of $12 million on the Cayman Holding Receivable.

Contractual Commitments

The following table sets forth our commitments as of September 30, 2018:

	Payments due during:							
	Remainder of 2018	2019	2020	2021	2022	2023	Thereafter	Total
	in millions							
Third-party debt (excluding interest)	$ —	$ —	$ 40.0	$ —	$ 850.0	$ 92.5	$ —	$ 982.5
Network and connectivity commitments	0.1	0.6	0.6	0.6	0.6	0.6	1.8	4.9
Operating leases	0.4	1.4	1.2	0.9	0.8	0.8	1.1	6.6
Total (a)	$ 0.5	$ 2.0	$ 41.8	$ 1.5	$ 851.4	$ 93.9	$ 2.9	$ 994.0
Projected cash interest payments on third-party debt (b)	$ 15.4	$ 61.2	$ 60.1	$ 58.8	$ 8.5	$ 4.4	$ —	$ 208.4

(a) The commitments included in this table do not reflect any liabilities that are included in our September 30, 2018 condensed 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 September 30, 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 6 to our condensed consolidated financial statements. For information concerning our commitments, see note 9 to our condensed consolidated financial statements.

In addition to the commitments set forth in the table above, we have commitments under derivative instruments, pursuant to which we expect to make payments in future periods. For information regarding projected cash flows associated with our derivative instruments, see *Projected Cash Flows Associated with Derivative Instruments* below. For information regarding our derivative instruments, including the net cash paid in connection with these instruments during the nine months ended September 30, 2018 and 2017, see note 3 to our condensed consolidated financial statements.

Projected Cash Flows Associated with Derivative Instruments

The following table provides information regarding the projected net cash flows associated with our derivative instruments. The amounts presented below are based on interest rates that were in effect as of September 30, 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 3 to our condensed consolidated financial statements.

	Payments (receipts) due during:						
	Remainder of 2018	**2019**	**2020**	**2021**	**2022**	**Thereafter**	**Total**
				in millions			
Interest-related (a)	$ (0.1)	$ 0.3	$ 0.5	$ 0.5	$ 0.1	$ —	$ 1.3

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