LIBERTY CABLEVISION OF PUERTO RICO LLC

Consolidated Financial Statements
December 31, 2016

LIBERTY CABLEVISION OF PUERTO RICO LLC

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

[Page intentionally left blank]

LIBERTY CABLEVISION OF PUERTO RICO LLC

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016

TABLE OF CONTENTS

[Page intentionally left blank]

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, 2016 and 2015, 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, 2016, 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, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

San Juan, Puerto Rico
March 31, 2017

Stamp No. E257734 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, 2016	December 31, 2015
	in millions	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 78.5	$ 65.7
Trade receivables and unbilled revenue, net	16.4	19.0
Prepaid expenses	5.1	4.6
Other current assets (note 11)	2.9	16.3
Total current assets	102.9	105.6
Property and equipment, net (note 7)	391.4	368.7
Goodwill (note 7)	277.7	277.7
Cable television franchise rights (note 7)	584.1	584.1
Customer relationships, net (note 7)	102.4	117.3
Other assets, net (notes 5 and 11)	8.0	19.0
Total assets	$ 1,466.5	$ 1,472.4
LIABILITIES AND MEMBERS' CAPITAL		
Current liabilities:		
Accounts payable (note 11)	$ 17.9	$ 15.6
Deferred revenue and advance payments from subscribers	12.3	13.2
Accrued capital expenditures	19.7	8.1
Third-party accrued interest	10.6	10.7
Derivative instruments (note 5)	8.9	—
Current portion of third-party debt and capital lease obligations (note 8)	0.2	0.5
Other accrued and current liabilities (note 12)	22.2	47.0
Total current liabilities	91.8	95.1
Long-term debt and capital lease obligations (note 8):		
Third-party	927.2	925.0
Related-party (note 11)	—	16.0
Other long-term liabilities (notes 5 and 11)	10.2	17.5
Total liabilities	1,029.2	1,053.6
Commitments and contingencies (notes 5, 8, 10, and 13)		
Members' capital:		
Members' capital (note 10)	505.3	486.8
Cayman Holding Loan Receivable (note 11)	(68.0)	(68.0)
Members' capital after deducting loan receivable from member	437.3	418.8
Total liabilities and members' capital	$ 1,466.5	$ 1,472.4

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,		
	2016	**2015**	**2014**
		in millions	
Revenue (note 14)	$ 420.8	$ 379.2	$ 306.1
Operating costs and expenses (exclusive of depreciation and amortization, shown separately below):			
Programming and other direct costs of services	113.3	109.9	90.6
Other operating	58.3	55.7	44.7
Selling, general and administrative (**SG&A**) (notes 11 and 13)	40.4	47.6	42.2
Depreciation and amortization (note 7)	83.2	74.6	63.9
Impairment, restructuring and other operating items, net (notes 4 and 12)	12.9	11.9	4.6
	308.1	299.7	246.0
Operating income	112.7	79.5	60.1
Non-operating expense:			
Interest expense:			
Third-party	(51.5)	(49.7)	(42.3)
Related-party (note 11)	(0.6)	(1.6)	(1.5)
Realized and unrealized losses on derivative instruments, net (note 5)	(2.4)	(13.8)	—
Loss on debt modification and extinguishment, net (note 8)	—	—	(9.8)
Other expense	(0.2)	(0.2)	—
	(54.7)	(65.3)	(53.6)
Net earnings	$ 58.0	$ 14.2	$ 6.5

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 Loan Receivable	Members' capital after deducting loan receivable from member
			in millions		
Balance at January 1, 2014	$ 232.4	$ 89.1	$ 321.5	$ —	$ 321.5
Net earnings	—	6.5	6.5	—	6.5
Priority Return (note 10)	11.8	(11.8)	—	—	—
Capital charge in connection with exercise or release of share-based incentive awards (note 11)	—	(0.7)	(0.7)	—	(0.7)
Share-based compensation (note 11)	—	0.3	0.3	—	0.3
Balance at December 31, 2014	244.2	83.4	327.6	—	327.6
Net earnings	—	14.2	14.2	—	14.2
Impact of the Choice Acquisition (notes 4 and 11)	—	404.8	404.8	(68.0)	336.8
Non-cash borrowing and distribution to Cayman Holding (note 4)	—	(259.1)	(259.1)	—	(259.1)
Priority Return (note 10)	13.0	(13.0)	—	—	—
Capital charge in connection with exercise or release of share-based incentive awards (note 11)	—	(1.0)	(1.0)	—	(1.0)
Share-based compensation (note 11)	—	0.3	0.3	—	0.3
Balance at December 31, 2015	257.2	229.6	486.8	(68.0)	418.8
Net earnings	—	58.0	58.0	—	58.0
Priority Return (note 10)	14.6	(14.6)	—	—	—
Cash and non-cash distribution to members (notes 10 and 11)	(35.4)	(3.7)	(39.1)	—	(39.1)
Capital charge in connection with exercise or release of share-based incentive awards (note 11)	—	(0.3)	(0.3)	—	(0.3)
Share-based compensation (note 11)	—	0.1	0.1	—	0.1
Other (note 11)	—	(0.2)	(0.2)	—	(0.2)
Balance at December 31, 2016	$ 236.4	$ 268.9	$ 505.3	$ (68.0)	$ 437.3

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,		
	2016	**2015**	**2014**
		in millions	
Cash flows from operating activities:			
Net earnings	$ 58.0	$ 14.2	$ 6.5
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Share-based compensation expense	2.9	1.2	0.3
Depreciation and amortization	83.2	74.6	63.9
Impairment, restructuring and other operating items, net	12.9	11.9	4.6
Amortization of deferred financing costs and non-cash interest accretion	2.3	1.9	1.1
Realized and unrealized losses on derivative instruments, net	2.4	13.8	—
Loss on debt modification and extinguishment, net	—	—	9.8
Changes in operating assets and liabilities, net of the effects of an acquisition:			
Receivables and other operating assets	(6.3)	1.7	(3.9)
Payables and accruals	(8.7)	(5.9)	(2.4)
Net cash provided by operating activities	146.7	113.4	79.9
Cash flows from investing activities:			
Capital expenditures	(84.6)	(70.8)	(61.3)
Cash acquired related to the Choice Acquisition	—	3.6	—
Net cash used by investing activities	(84.6)	(67.2)	(61.3)
Cash flows from financing activities:			
Distributions to members	(35.0)	—	—
Repayment of Shareholder Loan	(13.3)	—	—
Borrowings of third-party debt	—	—	20.5
Payment of financing costs	—	(1.8)	(13.4)
Repayments of third-party debt and capital lease obligations	(0.4)	(0.4)	(13.2)
Other financing activities	(0.6)	(0.2)	(0.1)
Net cash used by financing activities	(49.3)	(2.4)	(6.2)
Net increase in cash and cash equivalents	12.8	43.8	12.4
Cash and cash equivalents:			
Beginning of year	65.7	21.9	9.5
End of year	$ 78.5	$ 65.7	$ 21.9
Cash paid for interest - third-party	$ 52.9	$ 44.7	$ 34.0
Cash paid for interest - related-party	$ 3.5	$ —	$ —
Cash paid for taxes (note 11)	$ 1.4	$ —	$ —

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

(1) Basis of Presentation

Liberty Cablevision of Puerto Rico LLC (**Liberty Puerto Rico**) is a provider of video, broadband internet and fixed-line telephony services 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 investment funds affiliated with Searchlight, entered into an agreement with PPR Media LLC (**PPR Media**) to purchase Puerto Rico Cable Acquisition Company Inc., doing business as Choice Cable TV (**Choice**), a then subsidiary of PPR Media. Through a series of related-party transactions and immediately following the Choice Acquisition, as defined and described in note 4, Liberty Puerto Rico became the parent company of Choice. LiLAC Holdings, Inc. (**LiLAC Holdings**) indirectly owns a 60.0% controlling interest in Liberty Puerto Rico, with the remaining 40.0% interest indirectly owned by Searchlight. LiLAC Holdings is a wholly-owned subsidiary of Liberty Global plc (**Liberty Global**), an international provider of video, broadband internet, fixed-line telephony and mobile services. In these notes, the terms "we," "our," "our company" and "us" may refer, as the context requires, to Liberty Puerto Rico or collectively to Liberty Puerto Rico and its subsidiary.

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 31, 2017, the date of issuance.

(2) Accounting Changes and Recent Accounting Pronouncements

Accounting Changes

In April 2015, the Financial Accounting Standards Board (**FASB**) issued Accounting Standards Update (**ASU**) No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (**ASU 2015-03**), which requires debt issuance costs related to a recognized debt liability to be presented on the balance sheet as a reduction of debt, similar to the presentation of debt discounts. For public entities, ASU 2015-03 was effective for annual reporting periods beginning after December 15, 2015. We adopted ASU 2015-03 on January 1, 2016 and, accordingly, deferred financing costs are presented as a reduction of debt in our December 31, 2016 and 2015 consolidated balance sheets. Prior to the adoption of ASU 2015-03, we presented deferred financing costs in other assets, net.

Recent Accounting Pronouncements

ASU 2014-09

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

- When we enter into contracts to provide services to our customers, we often provide time-limited discounts or free service periods. Under current accounting rules, we recognize revenue net of discounts during the promotional periods and do not recognize any revenue during free service periods. Under ASU 2014-09, revenue recognition will be accelerated for these contracts as the impact of the discount or free service period will be recognized uniformly over the total contractual period.

- When we enter into contracts to provide services to our customers, we often charge installation or other up-front fees. Under current accounting rules, installation fees related to services provided over our cable networks are recognized as revenue in the period during which the installation occurs to the extent these fees are equal to or less than direct selling costs. Under

ASU 2014-09, these fees will generally be deferred and recognized as revenue over the contractual period, or longer if the up-front fee results in a material renewal right.

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

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

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

ASU 2016-02

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (**ASU 2016-02**), which, for most leases, will result in lessees recognizing lease assets and lease liabilities on the balance sheet with additional disclosures about leasing arrangements. ASU 2016-02 requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach also includes a number of optional practical expedients an entity may elect to apply. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. Although we are currently evaluating the effect that ASU 2016-02 will have on our consolidated financial statements, we expect the adoption of this standard will increase the number of leases to be accounted for as capital leases in our consolidated balance sheet.

ASU 2016-09

In March 2016, the FASB issued ASU No. 2016-09, *Compensation Stock Compensation Improvements to Employee Share-Based Payment Accounting* (**ASU 2016-09**), which simplifies several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities and classification within the statement of cash flows. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. ASU 2016-09 will result in, among other matters, the immediate recognition for financial reporting purposes of excess tax benefits that currently are not recognized until such time as these tax benefits can be realized as a reduction of income taxes payable.

ASU 2017-04

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment* (**ASU 2017-04**), which eliminates the requirement to estimate the implied fair value of a reporting unit's goodwill as determined following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, a company should recognize any goodwill impairment by comparing the fair value of a reporting unit to its carrying amount. ASU 2017-04 is effective for annual reporting periods beginning after December 15, 2021, with early adoption permitted. We expect the adoption of ASU 2017-04 to reduce the complexity surrounding the evaluation of our goodwill for impairment.

(3) Summary of Significant Accounting Policies

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (**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, useful lives of long-lived assets and share-based compensation. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation, including the reclassification of deferred financing costs from other long-term assets to long-term debt and capital lease obligations and the reclassification of certain costs between programming and other direct costs of services and other operating expenses. For additional information regarding the change in the classification of deferred financing costs, see *"Accounting Changes"* in note 2.

Principles of Consolidation

The accompanying consolidated financial statements include our accounts and the accounts of our wholly-owned subsidiary. All significant 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 reported by the investment manager as there are no restrictions on our ability, contractual or otherwise, to redeem our investments at the stated net asset value reported by the investment manager. Our significant non-cash investing and financing activities are disclosed in notes 4, 8, 10 and 11.

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 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. Such allowance aggregated $9.9 million and $8.4 million at December 31, 2016 and 2015, respectively. 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. We also manage this risk by disconnecting services to customers whose accounts are delinquent.

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 derivatives and debt, see notes 5 and 8, respectively. For information concerning how we arrive at certain of our fair value measurements, see note 6.

Derivative Instruments

All derivative instruments are recorded on the balance sheet 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 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 5.

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. Capitalized construction and installation costs include materials, labor and other directly attributable costs. 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 customer locations where a drop already exists, 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.

Depreciation is computed using the straight-line method over the estimated useful life of the underlying asset. Equipment under capital leases is amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the 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 charged to operations.

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 to their estimated residual values, 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) an expectation of a sale or disposal of a long-lived asset or asset group, (ii) adverse changes in market or competitive conditions, (iii) an adverse change in legal factors or business climate in the market in which we operate and (iv) 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 (a) sale prices for similar assets, (b) discounted estimated future cash flows using an appropriate discount rate and/or (c) 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 the annual goodwill impairment evaluation, 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 the 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. If the carrying value of the reporting unit were to exceed its fair value, we would then compare the implied fair value of the reporting unit's goodwill to its carrying amount, and any excess of the carrying amount over the fair value would be 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.

Income Taxes

Effective with its formation in the November 2012 Merger, Liberty Puerto Rico is 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, following the formation of Liberty Puerto Rico, our taxable income or loss, which may vary substantially from the net earnings or loss reported in our consolidated statements of operations, is proportionately included in the income tax returns of each member, as applicable. For additional information, see note 9.

Revenue Recognition

Service Revenue — Cable Networks. We recognize revenue from the provision of video, broadband internet and fixed-line telephony services over our cable network to customers in the period the related services are provided. Installation revenue (including reconnect fees) related to services provided over our cable network is recognized as revenue in the period during which the installation occurs to the extent these fees are equal to or less than direct selling costs, which costs are expensed as incurred. To the extent installation revenue exceeds direct selling costs, the excess revenue is deferred and amortized over the average expected subscriber life.

Sale of Multiple Products and Services. We 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. Revenue from bundled packages generally is allocated proportionally to the individual services based on the relative standalone price for each respective service.

*Business-to-Business (**B2B**) Revenue.* 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.

Promotional Discounts. For subscriber promotions, such as discounted or free services during an introductory period, revenue is recognized only to the extent of the discounted monthly fees charged to the subscriber, if any.

Subscriber Advance Payments and Deposits. Payments received in advance for the services we provide are deferred and recognized as revenue when the associated services are provided.

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) Acquisition

On June 3, 2015, pursuant to a stock purchase agreement with PPR Media and following regulatory approval, Cayman Holding paid cash in exchange for ownership shares of Choice. The purchase price was funded through (i) $259.1 million of debt under a bridge loan facility, net of discount and fees, (ii) $10.5 million of cash contributed to Cayman Holding from LiLAC Holdings and (iii) an equity contribution from Searchlight of $6.8 million. Liberty Puerto Rico then issued 150 common shares to Cayman Holding in exchange for 100% ownership of Choice resulting in Choice being a wholly-owned subsidiary of Liberty Puerto Rico (the **Choice Acquisition**). In connection with these transactions, Liberty Puerto Rico borrowed $267.5 million on the Liberty

Puerto Rico Bank Facility, as defined in note 8, ($259.1 million after deducting the applicable discount and fees) that was distributed directly to Cayman Holding and, as such, represents a non-cash borrowing and distribution of equity. Liberty Puerto Rico has been treated as the acquiring entity of Choice for financial reporting purposes.

Choice is a cable and broadband services provider in Puerto Rico. We acquired Choice in order to achieve certain financial, operational and strategic benefits through the integration of Choice with Liberty Puerto Rico.

We have accounted for the Choice Acquisition using the acquisition method of accounting, whereby the total purchase price was allocated to the acquired identifiable net assets of Choice based on assessments of their respective fair values, and the excess of the purchase price over the fair values of these identifiable net assets was allocated to goodwill. A summary of the purchase price and opening balance sheet of Choice at the June 3, 2015 acquisition date is presented in the following table. The opening balance sheet presented below reflects our final purchase price allocation (in millions):

Cash and cash equivalents	$ 3.6
Other current assets	7.8
Property and equipment, net	79.8
Goodwill (a)	51.6
Cable television franchise rights	147.8
Customer relationships, net (b)	59.1
Other assets, net	0.3
Other accrued and current liabilities	(13.2)
Non-current deferred tax liabilities (c)	(60.4)
Total purchase price (d)	276.4
Increase to members' capital associated with issuance of the Cayman Holding Loan Receivable (note 11)	68.0
Impact of non-current deferred tax liabilities retained by parent (c)	60.4
Impact of the Choice Acquisition	404.8
Non-cash borrowing and distribution to Cayman Holding	(259.1)
Increase to members' capital related to the Choice Acquisition	$ 145.7

(a) The goodwill recognized in connection with the Choice Acquisition is primarily attributable to (i) the ability to take advantage of Choice's existing advanced broadband communications network to gain immediate access to potential customers and (ii) synergies that are expected to be achieved through the integration of Choice with Liberty Puerto Rico.

(b) Amount includes intangible assets related to customer relationships. As of June 3, 2015, the weighted average useful life of Choice's intangible assets was approximately ten years.

(c) Liberty Puerto Rico is not a tax-paying entity for U.S. federal or Puerto Rico income tax purposes.

(d) Excludes cumulative direct acquisition costs of $8.5 million incurred through December 31, 2015, which are included in impairment, restructuring and other operating items, net, in our consolidated statements of operations.

Pro Forma Information

The following unaudited pro forma consolidated operating results give effect to the Choice Acquisition as if it had been completed as of January 1, 2014. These pro forma amounts are not necessarily indicative of the operating results that would have occurred if this transaction had occurred on such date. The pro forma adjustments are based on certain assumptions that we believe are reasonable.

	Year ended December 31, 2015	Year ended December 31, 2014
	in millions	
Revenue	$ 416.3	$ 393.4
Net earnings	$ 16.1	$ 6.1

Our consolidated statement of operations for 2015 includes revenue and net earnings of $52.1 million and $9.6 million, respectively, attributable to Choice.

(5) Derivative Instruments

During 2015, we entered into derivative instruments to protect against increases in the interest rates related to our variable-rate debt. The following table provides details of the fair values of our derivative instrument assets and liabilities:

	December 31, 2016			December 31, 2015		
	Current	Long-term (a)	Total	Current	Long-term (a)	Total
			in millions			
Assets:						
Interest rate derivative contracts (b)	$ —	$ 4.8	$ 4.8	$ —	$ —	$ —
Liabilities:						
Interest rate derivative contracts (b)	$ 8.9	$ 8.4	$ 17.3	$ —	$ 13.8	$ 13.8

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

(b) We consider credit risk in our fair value assessments. As of December 31, 2016 and 2015, (i) the fair values of our interest rate derivative contracts that represented assets have been reduced by credit risk valuation adjustments aggregating $0.2 million and nil, respectively, and (ii) the fair values of our interest rate derivative contracts that represented liabilities have been reduced by credit risk valuation adjustments aggregating $0.2 million and $0.5 million, respectively. The adjustments to our derivative liabilities relate to credit risk associated with our own nonperformance. In all cases, the adjustments take into account offsetting liability or asset positions within a given contract. Our determination of credit risk valuation adjustments generally is based on our credit risks, as observed in the credit default swap market and market quotations for our debt instruments, as applicable. The changes in the credit risk valuation adjustments associated with our interest rate derivative contracts resulted in a net gain (loss) of ($0.5 million) and $0.5 million during 2016 and 2015, respectively, that is included in realized and unrealized losses on derivative instruments, net, in our consolidated statements of operations. For further information regarding our fair value measurements, see note 6.

The details of our realized and unrealized losses on derivative instruments, net, are as follows:

	Year ended December 31, 2016	2015	2014
		in millions	
Interest rate derivative contracts	$ 2.4	$ 13.8	$ —

The classification of the net cash outflows on derivative instruments is as follows:

	Year ended December 31,		
	2016	2015	2014
		in millions	
Operating activities	$ 3.7	$ —	$ —

Counterparty Credit Risk

Collateral is generally not posted by either party under our derivative instruments.

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

Under our derivative contracts, it is generally only the non-defaulting party that has a contractual option to exercise early termination rights upon the default of the other counterparty and to set off other liabilities against sums due upon such termination. However, in an insolvency of a derivative counterparty, under the laws of certain jurisdictions, the defaulting counterparty or its insolvency representatives may be able to compel the termination of one or more derivative contracts and trigger early termination payment liabilities payable by us, reflecting any mark-to-market value of the contracts for the counterparty. Alternatively, or in addition, the insolvency laws of certain jurisdictions may require the mandatory set off of amounts due under such derivative contracts against present and future liabilities owed to us under other contracts between us and the relevant counterparty. Accordingly, it is possible that we may be subject to obligations to make payments, or may have present or future liabilities owed to us partially or fully discharged by set off as a result of such obligations, in the event of the insolvency of a derivative counterparty, even though it is the counterparty that is in default and not us. To the extent that we are required to make such payments, our ability to do so will depend on our liquidity and capital resources at the time. In an insolvency of a defaulting counterparty, we will be an unsecured creditor in respect of any amount owed to us by the defaulting counterparty, except to the extent of the value of any collateral we have obtained from that counterparty.

In addition, where a counterparty is in financial difficulty, under the laws of certain jurisdictions, the relevant regulators may be able to (i) compel the termination of one or more derivative instruments, determine the settlement amount and/or compel, without any payment, the partial or full discharge of liabilities arising from such early termination that are payable by the relevant counterparty or (ii) transfer the derivative instruments to an alternative counterparty. At December 31, 2016, our exposure to counterparty credit risk included derivative assets with an aggregate fair value of $4.8 million.

Details of our Derivative Instruments

In the following tables, we present the details of our derivative instruments. The notional amounts of multiple derivative instruments that mature within the same calendar month are shown in the aggregate and interest rates are presented on a weighted average basis. For derivative instruments that become effective subsequent to December 31, 2016, we present a range of dates that represents the period covered by the applicable derivative instruments.

Interest Rate Derivative Contracts

The terms of our outstanding interest rate swap contracts at December 31, 2016 are as follows:

Final maturity date	Notional amount	Interest rate due from counterparty	Interest rate due to counterparty
	in millions		
January 2022	$ 506.3	3 mo. LIBOR	2.49%
January 2019	$ 168.8	3 mo. LIBOR	1.96%

Interest Rate Caps

The terms of our outstanding interest rate cap contracts with respect to LIBOR at December 31, 2016 detailed below:

Final maturity date	Notional amount	LIBOR cap rate
	in millions	
January 2022	$ 258.8	3.50%
January 2019 - July 2023	$ 177.5	3.50%

(6) Fair Value Measurements

We use the fair value method to account for our derivative instruments. The reported fair values of these derivative instruments as of December 31, 2016 likely will not represent the value that will be paid or received upon the ultimate settlement or disposition of these assets and liabilities. With respect to our derivative instruments, we expect that the values realized generally will be based on market conditions at the time of settlement, which may occur at the maturity of the derivative instrument or at the time of the repayment or refinancing of the underlying debt instrument.

U.S. GAAP provides for a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. We record transfers of assets or liabilities into or out of Levels 1, 2 or 3 at the beginning of the quarter during which the transfer occurred. During 2016, no such transfers were made.

As further described in note 5, we have entered into various derivative instruments to manage our interest rate risk. 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 counterparties. Our and our counterparties' 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 counterparties' credit spreads to have a significant impact on the valuations of these derivative 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 5.

Fair value measurements are also used in connection with nonrecurring valuations performed in connection with impairment assessments and acquisition accounting. These nonrecurring valuations include the valuation of intangible assets related to cable television franchise rights and customer relationships, property and equipment and the implied value of goodwill. With the exception of certain inputs for our weighted average cost of capital and discount rate calculations that are derived from pricing services, the inputs used in our discounted cash flow analyses, such as forecasts of future cash flows, are based on our assumptions. The valuations of our cable television franchise rights and customer relationship intangible assets are each primarily based on an excess earnings methodology, which is a form of a discounted cash flow analysis. The excess earnings methodology requires us to estimate the specific cash flows expected from the respective cable television franchise rights and customer relationship intangible assets, considering such factors as estimated customer life, the revenue expected to be generated over the life of the cable television franchise rights or the customer relationship, contributory asset charges, and other factors. Tangible assets are typically valued using a replacement or reproduction cost approach, considering factors such as current prices of the same or similar equipment, the age of the equipment and economic obsolescence. The implied value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination, with the residual amount allocated to goodwill. Our nonrecurring valuations use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy. During 2016, we did not perform any nonrecurring fair value measurements. During 2015, we performed nonrecurring valuations for the purpose of determining the acquisition accounting for the Choice Acquisition.

The discount rates used to value the cable television franchise rights and customer relationships acquired as a result of this acquisition were approximately 12.25% and 11.75%, respectively.

(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, 2016	December 31, 2016	December 31, 2015
		in millions	
Distribution systems	3 to 15 years	$ 626.7	$ 547.6
Support equipment, buildings and land	3 to 40 years	56.1	47.2
		682.8	594.8
Accumulated depreciation		(291.4)	(226.1)
Total property and equipment, net		$ 391.4	$ 368.7

Depreciation expense related to our property and equipment was $68.3 million, $62.1 million and $54.7 million during 2016, 2015 and 2014, respectively.

During 2016, 2015 and 2014, we recorded changes in current liabilities related to capital expenditures of ($6.4 million), ($7.3 million) and $0.9 million, respectively.

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

Goodwill and Cable Television Franchise Rights

During 2016, there were no changes in the balances of our goodwill and cable television franchise rights. No impairments of our goodwill or cable television franchise rights were required to be recorded in connection with our October 1, 2016 or 2015 impairment tests.

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

Customer Relationships, Net

The details of our customer relationships, which have an estimated useful life of ten years at December 31, 2016, are set forth below:

	December 31, 2016	December 31, 2015
	in millions	
Gross carrying amount	$ 149.1	$ 149.1
Accumulated amortization	(46.7)	(31.8)
Net carrying amount	$ 102.4	$ 117.3

Amortization expense of intangible assets with finite useful lives was $14.9 million, $12.5 million and $9.2 million during 2016, 2015 and 2014, respectively.

Based on our customer relationships balance at December 31, 2016, we expect that amortization expense will be as follows for the next five years and thereafter (in millions):

2017	$ 16.0
2018	15.7
2019	14.9
2020	14.9
2021	14.9
Thereafter	26.0
Total	$ 102.4

(8) Debt and Capital Lease Obligations

Our third-party debt obligations are as follows:

	December 31, 2016		Estimated fair value (c)		Principal amount	
	Weighted average interest rate (a)	Unused borrowing capacity (b)	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
			in millions			
Third-party debt before unamortized discounts and deferred financing costs (d)	5.11%	$ 40.0	$ 935.2	$ 913.0	$ 942.5	$ 942.5

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

	December 31, 2016	December 31, 2015
	in millions	
Third-party debt before unamortized discounts and deferred financing costs	$ 942.5	$ 942.5
Unamortized discounts	(7.5)	(8.6)
Unamortized deferred financing costs	(7.8)	(9.0)
Total carrying amount of third-party debt	927.2	924.9
Capital lease obligations	0.2	0.6
Total third-party debt and capital lease obligations	927.4	925.5
Related-party debt (note 11)	—	16.0
Total debt and capital lease obligations	927.4	941.5
Current maturities of debt and capital lease obligations	(0.2)	(0.5)
Long-term debt and capital lease obligations	$ 927.2	$ 941.0

(a) Represents the weighted average interest rate in effect at December 31, 2016 for all borrowings outstanding pursuant to each debt instrument, including any applicable margin. The interest rates presented represent stated rates and do not include the impact of deferred financing costs, original issue premiums or discounts and commitment fees, all of which affect our overall cost of borrowing. Including the effects of derivative instruments, original issue discounts and commitment fees, but excluding the impact of financing costs, our weighted average interest rate on our aggregate third-party variable- and fixed-rate indebtedness was 6.2% at December 31, 2016. For information regarding our derivative instruments, see note 5.

(b) Unused borrowing capacity represents the maximum availability under the LPR Revolving Loan (as defined and described below) at December 31, 2016 without regard to covenant compliance calculations or other conditions precedent to borrowing. Based on the applicable leverage and other financial covenants, the full amount of unused borrowing capacity was available to be borrowed under the LPR Revolving Loan at December 31, 2016. When the relevant December 31, 2016 compliance reporting requirements have been completed, and assuming no changes from the December 31, 2016 borrowing levels, we anticipate the full amount of the LPR Revolving Loan will continue to be available to be borrowed.

(c) The estimated fair values of our debt instruments were determined using the average of applicable bid and ask prices (mostly Level 1 of the fair value hierarchy). For additional information concerning fair value hierarchies, see note 6.

(d) Represents the Liberty Puerto Rico Bank Facility, as defined and described below.

Liberty Puerto Rico Bank Facility

The Liberty Puerto Rico Bank Facility is the senior secured credit facility of our company. The details of our borrowings under the Liberty Puerto Rico Bank Facility as of December 31, 2016 are summarized in the following table:

Liberty Puerto Rico Facility	Maturity	Interest rate	Facility amount	Outstanding principal amount	Unused borrowing capacity	Carrying value (a)
				in millions		
LPR Term Loan B	January 7, 2022	LIBOR + 3.50% (b)	$ 765.0	$ 765.0	$ —	$ 752.8
LPR Term Loan C	July 7, 2023	LIBOR + 6.75% (b)	$ 177.5	177.5	—	174.4
LPR Revolving Loan (c)	July 7, 2020	LIBOR + 3.50%	$ 40.0	—	40.0	—
Total				$ 942.5	$ 40.0	$ 927.2

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

(b) LPR Term Loan B and LPR Term Loan C each have a LIBOR floor of 1.0%.

(c) The LPR Revolving Loan has a fee on unused commitments of 0.50% or 0.375% depending on the consolidated total net leverage ratio (as specified in the Liberty Puerto Rico Bank Facility).

In addition to customary restrictive covenants, prepayment requirements and events of default, including defaults on other indebtedness of Liberty Puerto Rico, the Liberty Puerto Rico Bank Facility requires compliance with a consolidated total net leverage ratio and a consolidated first lien net leverage ratio, each specified in the Liberty Puerto Rico Bank Facility. The Liberty Puerto Rico Bank Facility permits Liberty Puerto Rico to transfer funds to its parent company (and indirectly to Liberty Global) through loans, dividends or other distributions provided that Liberty Puerto Rico maintains compliance with applicable covenants.

The Liberty Puerto Rico 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 Global and (b) certain other assets owned by Liberty Puerto Rico.

2014 Refinancing Transactions. During 2014, we completed various refinancing transactions that generally resulted in additional borrowings or extended maturities under the Liberty Puerto Rico Bank Facility. In connection with these transactions, we recognized a loss on debt modification and extinguishment, net, of $9.8 million. This loss includes (i) third-party costs of $7.1 million, (ii) the write-off of deferred financing costs of $3.6 million and (iii) the write-off of unamortized premium of $0.9 million.

Maturities of Debt

As of December 31, 2016, all of our debt matures in January 2022 and thereafter.

Non-cash Refinancing Transactions

During 2016, 2015 and 2014 certain of our refinancing transactions included non-cash borrowings and repayments of debt aggregating nil, $267.5 million and $651.2 million, respectively. During 2015, our non-cash borrowings and repayments related to the Choice Acquisition, as further described in note 4.

(9) Income Taxes

Prior to the formation of Liberty Puerto Rico in November 2012, we were a separate tax-paying corporation in Puerto Rico. Subsequent to the formation of Liberty Puerto Rico, 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 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 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 2012 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 distributions to our Members be made in the following order of priority: (i) first, to the Class A Preferred Member, the amount of the aggregate accrued and unpaid Priority Return (as defined and described below), (ii) second, to the Class B Common Member until such Class B Common Member's capital account has been reduced to the amount of the Class B Common Member's capital contributions, (iii) third, to the Members in respect of their units on a pro rata basis, subject to certain limitations, and (iv) fourth, the balance, if any, to the Class B Common Member.

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

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. The Priority Return shall be paid generally only when and if declared.

In accordance with the LLC Agreement, Priority Returns have been accrued and recorded quarterly as increases to the Class A Preferred Member capital and decreases to the Class B Common Member capital since November 8, 2012. Accrued Priority Returns will be reflected as a liability when and if declared. During 2016, we (i) declared and paid a $30.0 million distribution to our Class A Preferred Member and (ii) paid taxes aggregating $5.0 million on behalf of our Class A Preferred Member. In accordance with the terms of the LLC Agreement, we have reflected these payments as distributions to Members in our consolidated statements of cash flows and changes in members' capital. The cumulative amount of Priority Returns accrued through December 31, 2016 is $16.0 million. On February 3, 2017, we declared and paid distributions aggregating $37.3 million consisting of (a) $18.7 million to our Class A Preferred Member, which represented the total accrued Priority Return as of December 31, 2016 and additional Priority Return accrued during 2017 through the date of distribution, and (b) $18.6 million to our Class B Common Member. Subsequent to these distributions, our Class B Common Member repaid $12.3 million of the outstanding principal balance on the the Cayman Holding Loan Receivable, as defined and described in note 11, and made a $6.3 million contribution representing interest on the Cayman Holding Loan Receivable. We then distributed $18.6 million to our Class B Common Member.

Liberty Puerto Rico issued 150 common shares to Cayman Holding in connection with the Choice Acquisition. For additional information, see note 4.

(11) Related-party Transactions

Allocated share-based compensation expense. We recognized share-based compensation expense of $2.9 million, $1.2 million and $0.3 million, during 2016, 2015 and 2014, respectively. These amounts include share-based compensation of $0.2 million, $0.3 million and $0.3 million during 2016, 2015 and 2014, respectively, that Liberty Global allocated to our company with respect to share-based incentive awards held by certain of our employees, which are reflected as an increase to members' capital. The remaining share-based compensation during 2016 relates to a liability-based share incentive award plan that we implemented on January 1, 2015. Share-based compensation expense is included in SG&A in our consolidated statements of operations.

Interest expense. We recognized related-party interest expense on the Shareholder Loan, as defined and described below, of $0.6 million, $1.6 million and $1.5 million, during 2016, 2015 and 2014, respectively.

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

	December 31, 2016	December 31, 2015
	in millions	
Assets:		
Other current assets (a)	$ —	$ 1.0
Other assets (b)	1.2	4.1
Total assets	$ 1.2	$ 5.1
Liabilities:		
Accounts payable (c)	$ 2.0	$ 1.8
Debt (d)	—	16.0
Other long-term liabilities (e)	—	1.6
Total liabilities	$ 2.0	$ 19.4

____

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

(b) The December 31, 2016 amount represents various related-party receivables that may be cash or loan settled, including estimated income tax payments paid on behalf of Cayman Holding. Cayman Holding, which owns a 60.0% interest in Liberty Puerto Rico, is a pass-through entity for U.S. federal income tax purposes, but is treated as a corporation for income tax purposes in the Puerto Rico jurisdiction. On a quarterly basis, we make estimated tax payments on behalf of Cayman Holding. The resulting receivables are non-interest bearing and will be cash or loan settled at the discretion of Leo Cable, the parent company of Cayman Holding. The December 31, 2015 amount represents taxes of $0.4 million and $3.7 million paid on behalf of our Class A Preferred Member and our Class B Common Member, respectively, which during 2016, was reclassified to members' capital and reflected as non-cash distributions to members in our consolidated statement of changes in members' capital.

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

(d) On December 31, 2012, we entered into a loan agreement with LiLAC Holdings (the **Shareholder Loan**), which was subordinate in right of payment to the Liberty Puerto Rico Bank Facility. The Shareholder 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 Shareholder Loan that totaled $18.2 million through (i) a payment of principal and interest of $13.3 million and $3.5 million, respectively, to LiLAC Holdings and (ii) a payment of $1.4 million to the Puerto Rico tax authorities representing withholding taxes for accrued interest on the Shareholder Loan. The increase in the Shareholder Loan balance during 2015 and 2014 include non-cash transfers of accrued interest of $1.5 million and $1.2 million, respectively.

(e) The amount represents accrued and then unpaid interest on the Shareholder Loan.

In June 2015, Cayman Holding issued a related-party loan receivable to us in connection with the Choice Acquisition (the **Cayman Holding Loan Receivable**). The Cayman Holding Loan 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 Loan Receivable as a reduction of our members' capital. As further described in note 10, $12.3 million related to the Cayman Holding Loan Receivable was repaid subsequent to December 31, 2016. For additional information regarding the Choice Acquisition, see note 4. We do not accrue interest income on the Cayman Holding Loan Receivable given our assessment that it is likely that we would directly or indirectly fund any amounts paid by the Class B Common Member with respect to the Cayman Holding Loan Receivable. Accordingly, repayments of interest on the Cayman Holding Loan Receivable by our Class B Common Member will be reflected as a capital contribution in our consolidated statements of members' capital.

During 2016, 2015 and 2014, we recorded aggregate capital charges of $0.3 million, $1.0 million and $0.7 million, respectively, 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 $0.5 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. We and Liberty Global have agreed that these capital charges, which are generally cash settled, will be 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.

(12) Restructuring Liabilities

A summary of changes in our restructuring liabilities during 2016, 2015 and 2014 is set forth in the table below:

	Employee severance and termination	Contract termination and other	Total
		in millions	
Restructuring liability as of January 1, 2014	$ 0.5	$ 0.2	$ 0.7
Restructuring charges	0.1	—	0.1
Cash paid	(0.6)	—	(0.6)
Restructuring liability as of December 31, 2014	—	0.2	0.2
Restructuring charges (a)	2.6	—	2.6
Choice liability at acquisition date	—	1.0	1.0
Cash paid	(2.4)	(1.0)	(3.4)
Restructuring liability as of December 31, 2015 (b)	0.2	0.2	0.4
Restructuring charges	1.0	0.2	1.2
Cash paid	(1.0)	—	(1.0)
Restructuring liability as of December 31, 2016 (b)	$ 0.2	$ 0.4	$ 0.6

____

(a) During 2015, restructuring charges primarily relate to reorganization and integration activities following the Choice Acquisition. In addition, we incurred a $4.5 million restructuring charge related to the write-off of a prepaid asset in connection with a contract termination. For further information regarding the Choice Acquisition, see note 4.

(b) Our December 31, 2016 and 2015 restructuring liabilities are included in other accrued and current liabilities in our consolidated balance sheets.

In addition to the restructuring charges set forth in the table above, we also incurred $11.6 million in restructuring charges related to the write-off of a prepaid indefeasible right of use for telecommunications capacity due to the abandonment of this capacity in favor of capacity on another of Liberty Global's subsidiary's network.

(13) 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 December 31, 2016, such commitments are as follows:

	Payments due during:						
	2017	2018	2019	2020	2021	Thereafter	Total
				in millions			
Network and connectivity commitments (a)	$ 1.2	$ 1.2	$ 1.2	$ 1.2	$ 1.2	$ 3.4	$ 9.4
Operating leases	1.6	1.5	1.3	1.1	0.9	2.9	9.3
Total (b)	$ 2.8	$ 2.7	$ 2.5	$ 2.3	$ 2.1	$ 6.3	$ 18.7

____

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

(b) The commitments included in this table do not reflect any liabilities that are included in our December 31, 2016 consolidated balance sheets.

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 $100.0 million, $96.0 million and $80.7 million during 2016, 2015 and 2014, respectively.

Commitments arising from acquisition agreements are not reflected in the above table.

In addition to the commitments set forth in the table above, we have significant commitments under derivative instruments pursuant to which we expect to make payments in future periods. For information regarding our derivative instruments, see note 5.

Legal and Regulatory Proceedings and Other Contingencies

PRTC and Class Action Claims. In November 2012, we completed a business combination that resulted in, among other matters, the combination of our then operating subsidiary in Puerto Rico with San Juan Cable, LLC dba Onelink Communications (**OneLink**). In connection with this transaction, we, as the surviving entity, became 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 acquisition of OneLink (the **PRTC Claim**). The PRTC Claim includes an allegation that OneLink acted in an anticompetitive manner in connection with a series of legal and regulatory proceedings it initiated against PRTC in Puerto Rico beginning in 2009. In March 2014, a separate class action claim was filed in Puerto Rico (the **Class Action Claim**) containing allegations substantially similar to those asserted in the PRTC Claim, but alleging ongoing injury on behalf of a consumer class (as opposed to harm to a competitor). In July 2016, the judge presiding over the PRTC Claim in the United States District Court for the District of Maine (the **District Court**) granted OneLink summary judgment that dismissed the PRTC Claim in its entirety. PRTC filed an appeal of the District Court's decision with the United States First Circuit Court of Appeals. Based on our assessment of the PRTC Claim on appeal and the Class Action Claim, we have determined that the possibility of loss is remote. As a result, we will not report on this matter in future reports. In connection with the July 2016 decision, we have released our previously-recorded provision and related indemnification asset associated with the PRTC Claim, resulting in a $5.1 million reduction to our SG&A expenses during the third quarter of 2016. In December 2016, we received $7.5 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 acquisition of OneLink.

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

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

(14) Segment Reporting

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

Our revenue by major category is set forth below:

	Year ended December 31,		
	2016	2015	2014
		in millions	
Cable subscription revenue (a):			
Video	$ 176.7	$ 174.1	$ 150.1
Broadband internet	166.8	136.3	99.9
Fixed-line telephony	31.0	31.5	29.6
Total cable subscription revenue	374.5	341.9	279.6
B2B revenue (b)	22.0	15.6	3.8
Other revenue (c)	24.3	21.7	22.7
Total	$ 420.8	$ 379.2	$ 306.1

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

(b) B2B revenue includes revenue from business broadband internet, video, voice and data services offered to medium to large enterprises and, on a wholesale basis, to other operators. We also provide 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. Revenue from SOHO subscribers, which is included in cable subscription revenue, aggregated $22.9 million, $20.6 million and $17.3 million during 2016, 2015 and 2014, respectively.

(c) Other revenue includes, among other items, late fee, advertising and installation revenue.

[Page intentionally left blank]

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, 2016 and 2015.
- *Liquidity and Capital Resources.* This section provides an analysis of our liquidity and consolidated statements of cash flows.

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 statements regarding the economic environment in Puerto Rico, our business, product, and finance strategies, our property and equipment additions, subscriber growth and retention rates, competitive, regulatory and economic factors, the timing and impacts of proposed transactions, the anticipated impacts of new legislation (or changes to existing rules and regulations), anticipated changes in our revenue, costs or growth rates, our liquidity, credit risks and target leverage levels. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. In evaluating these statements, you should consider the following list of some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

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

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

The broadband distribution services industries are changing rapidly and, therefore, the forward-looking statements of expectations, plans and intent in this 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 video, broadband internet and fixed-line telephony services in Puerto Rico. LiLAC Holdings indirectly owns a 60.0% controlling interest in Liberty Puerto Rico, with the remaining 40.0% interest indirectly owned by Searchlight. LiLAC Holdings is a wholly-owned subsidiary of Liberty Global, an international provider of video, broadband internet, fixed-line telephony and mobile services.

We completed the Choice Acquisition on June 3, 2015, which impacts the comparability of our 2016 and 2015 results of operations. For further information regarding the Choice Acquisition, see note 4 to our consolidated financial statements.

Operations

At December 31, 2016, we owned and operated a network that passed 1,092,300 homes and served 799,100 revenue generating units (**RGU**s), consisting of 329,000 broadband internet subscribers, 261,300 video subscribers and 208,800 fixed-line telephony subscribers.

The following table provides details of our organic RGU changes for the years indicated:

	Year ended December 31,		
	2016	**2015**	**2014**
Organic RGU additions (losses):			
Enhanced video	(2,600)	(4,600)	9,400
Broadband internet	10,000	17,300	18,100
Fixed-line telephony	14,800	17,400	27,600
Total organic RGU additions	22,200	30,100	55,100

Video services. Our enhanced video service offerings include basic and premium programming and incremental product and service offerings such as enhanced pay-per-view programming (including video-on-demand), digital video recorders and high definition programming.

Broadband internet services. Our residential subscribers generally access the internet at download speeds up to 300 Mbps, depending on the tier of service selected. We determine pricing for each tier of broadband internet service through analysis of speed, market conditions and other factors.

Fixed-line telephony services. We offer fixed-line telephony services using voice-over-internet-protocol or "VoIP" technology.

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 the Choice Acquisition. While we seek to obtain new customers, we also seek to maximize the average revenue we receive from each household by increasing the penetration of our digital cable, broadband internet and fixed-line telephony services, with existing customers through product bundling and promotions.

Competition and other external factors

We are facing a challenging economic environment in Puerto Rico. This environment could adversely impact our ability to increase, or in certain cases, maintain the revenue, RGUs, Segment OCF (as defined and described below) and liquidity of our business, particularly if the economic environment were to weaken further. Additionally, concerns exist with respect to the Puerto Rico government's cash flows and, accordingly, its ability to meet its debt obligations. In this regard, the Puerto Rico government has failed to make significant portions of its scheduled debt payments during 2016. Although the Puerto Rico government has implemented tax increases and other measures to improve its solvency and the U.S. has implemented legislation designed to help manage Puerto Rico's debt crisis, it remains possible, if not likely, that Puerto Rico will be required to restructure its debt obligations. If the fiscal and economic conditions in Puerto Rico were to worsen, the population of Puerto Rico could continue to decline and the demand and ability of customers to pay for Liberty Puerto Rico's services could be impaired, both of which could have a negative impact on Liberty Puerto Rico's results of operations, cash flows and financial condition.

In addition, high levels of sovereign debt in the U.S., combined with weak growth and high unemployment, could 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.

Results of Operations

General

As noted under *Overview* above, the comparability of our operating results during 2016 and 2015 is affected by the Choice Acquisition. In the following discussion, we quantify the estimated impact of the Choice Acquisition on our operating results. The acquisition impact represents our estimate of the difference between the operating results of the periods under comparison that is attributable to an acquisition. In general, we base our estimate of the acquisition impact on an acquired entity's operating results during the first three to six months following the acquisition date, as adjusted to remove integration costs and any other material nonrecurring or nonoperational items, such that changes from those operating results in subsequent periods are considered to be organic changes. Accordingly, in the following discussion, (i) variances attributed to the acquisition of Choice during the first 12 months following the acquisition date represent differences between the estimated acquisition impact and the actual results and (ii) the calculation of our organic growth percentages includes the organic growth of Choice relative to our estimate of the acquisition impact of Choice.

This section provides an analysis of our results of operations for the years ended December 31, 2016 and 2015.

Revenue

Revenue includes amounts earned from (i) subscribers to our broadband communication and other fixed-line services (collectively referred to herein as "**cable subscription revenue**") and (ii) B2B services, installation fees, late fees and advertising revenue. Consistent with the presentation of our revenue categories in note 14 to our consolidated financial statements, we use the term "subscription revenue" in the following discussion to refer to amounts received from subscribers for ongoing services, excluding installation fees and late fees.

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

Our revenue by major category is set forth below:

	Year ended December 31,		Increase (decrease)		Organic increase (decrease)
	2016	2015	$	%	%
	in millions				
Cable subscription revenue (a):					
Video	$ 176.7	$ 174.1	$ 2.6	1.5	(5.8)
Broadband internet	166.8	136.3	30.5	22.4	7.3
Fixed-line telephony	31.0	31.5	(0.5)	(1.6)	(5.1)
Total cable subscription revenue	374.5	341.9	32.6	9.5	(0.3)
B2B revenue (b)	22.0	15.6	6.4	41.0	33.0
Other revenue (c)	24.3	21.7	2.6	12.0	(1.3)
Total	$ 420.8	$ 379.2	$ 41.6	11.0	1.0

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

(b) B2B revenue includes revenue from business broadband internet, video, voice and data services offered to medium to large enterprises and, on a wholesale basis, to other operators. We also provide services to certain 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. Revenue from SOHO subscribers, which is included in cable subscription revenue, aggregated $22.9 million and $20.6 million during 2016 and 2015, respectively.

(c) Other revenue includes, among other items, late fee, advertising and installation revenue.

The details of our revenue increase during 2016, as compared to 2015, includes (i) an organic increase of $4.0 million or 1.0% and (ii) the impact of the Choice Acquisition, as set forth below:

	Subscription revenue	Non-subscription revenue	Total
		in millions	
Increase (decrease) in cable subscription revenue due to change in:			
Average number of RGUs (a)	$ 2.7	$ —	$ 2.7
ARPU (b)	(3.8)	—	(3.8)
Total decrease in cable subscription revenue	(1.1)	—	(1.1)
Increase in B2B revenue (c)	—	5.5	5.5
Decrease in other revenue	—	(0.4)	(0.4)
Total organic increase (decrease)	(1.1)	5.1	4.0
Impact of the Choice Acquisition	33.7	3.9	37.6
Total	$ 32.6	$ 9.0	$ 41.6

(a) The increase in cable subscription revenue related to a change in the average number of RGUs is attributable to increases in the average numbers of fixed-line telephony and broadband internet RGUs that were only partially offset by a decline in the average number of enhanced video RGUs.

(b) The decrease in cable subscription revenue related to a change in ARPU is attributable to the net effect of (i) an adverse change in RGU mix and (ii) a net increase due to (a) higher ARPU from broadband internet services and (b) lower ARPU from fixed-line telephony and video services.

(c) The increase in B2B revenue is largely due to higher revenue from data services.

Programming and other direct costs of services

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

Our total programming and other direct costs of services increased $3.4 million or 3.1% during 2016, as compared to 2015. This increase includes an increase of $10.4 million attributable to the impact of the Choice Acquisition. Excluding the effects of this acquisition, programming and other direct costs decreased $7.0 million or 5.8%. This decrease includes the following factors:

- A decrease in programming and copyright costs of $4.5 million or 4.7%, primarily due to decreased costs for certain premium content; and

- A decrease in other costs of $2.4 million or 78.8%, primarily due to lower carrier costs.

Other operating expenses

Other operating expenses include network operations, customer operations, customer care and other costs related to our operations. In addition, we are subject to inflationary pressures with respect to our labor and other costs. Any cost increases that we are not able to pass on to our subscribers through service rate increases would result in increased pressure on our operating margins.

Our total other operating expenses increased $2.6 million or 4.7% during 2016, as compared to 2015. This increase includes an increase of $6.3 million attributable to the impact of the Choice Acquisition. Excluding the effects of this acquisition, other operating expenses decreased $3.7 million or 6.0%. This decrease includes the following factors:

- A decrease in network-related costs of $1.8 million or 15.6%, primarily due to lower outsourced labor for customer-facing activities;

- A decrease in bad debt and collection expense of $1.1 million or 7.7%; and

- A decrease in personnel costs of $0.7 million or 2.8%, primarily due to (i) lower staffing levels and (ii) lower incentive compensation costs.

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. As noted above, we are subject to inflationary pressures with respect to our labor and other costs.

Our total SG&A expenses (exclusive of share-based compensation expense) decreased $8.9 million or 19.2% during 2016, as compared to 2015. This decrease includes an increase of $5.5 million attributable to the impact of the Choice Acquisition. Excluding the effect of the Choice Acquisition, SG&A expenses decreased $14.4 million or 27.9%. This decrease includes the following factors:

- A $12.6 million decrease associated with the effective settlement of the PRTC Claim including (i) a $5.1 million reduction that represents the net impact of the reversal of the provision and related indemnification asset associated with the PRTC Claim that were originally recorded in connection with the acquisition of OneLink and (ii) the receipt of $7.5 million of indemnification proceeds from the former owners of OneLink. For additional information, see note 13 to our consolidated financial statements; and

- A net decrease resulting from individually insignificant changes in other SG&A expense categories.

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

We recognized share-based compensation expense of $2.9 million and $1.2 million during 2016 and 2015, respectively.

Depreciation and amortization expense

Our depreciation and amortization expense increased $8.6 million or 11.5% during 2016, as compared to 2015. This increase is primarily due to the net effect of (i) an increase associated with property and equipment additions related to the expansion and upgrade of our network, the installation of customer premises equipment and other capital initiatives, (ii) a decrease associated with certain assets becoming fully depreciated and (iii) an increase from the impact of the Choice Acquisition.

Impairment, restructuring and other operating items, net

We recognized impairment, restructuring and other operating items, net, of $12.9 million during 2016, as compared to $11.9 million during 2015. The charges during 2016 are primarily attributable to restructuring charges of $12.6 million, including (i) $11.6 million related to the write-off of a prepaid indefeasible right of use for telecommunications capacity due to the abandonment of this capacity in favor of capacity on another of Liberty Global's subsidiary's network and (ii) employee severance and termination costs of $1.0 million related to certain reorganization and integration activities in connection with the Choice Acquisition. The charges during 2015 are primarily attributable to (a) restructuring charges of $7.1 million, including (1) contract termination charges of $4.5 million and (2) employee severance and termination costs of $2.6 million related to certain reorganization and integration activities in connection with the Choice Acquisition and (b) direct acquisition costs of $4.6 million related to the Choice Acquisition.

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

Interest expense – third-party

Our third-party interest expense increased $1.8 million during 2016, as compared to 2015. This increase is due to a higher average outstanding debt balance resulting from the Choice Acquisition.

For additional information regarding our outstanding third-party indebtedness, see note 8 to our consolidated financial statements.

Interest expense – related-party

Our related-party interest expense decreased $1.0 million during 2016, as compared to 2015. This decrease is primarily due to the repayment of the Shareholder Loan in April 2016. For additional information regarding our related-party debt, see note 11 to our consolidated financial statements.

Realized and unrealized losses on derivative instruments, net

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

Our realized and unrealized losses on derivative instruments, net, were $2.4 million and $13.8 million during 2016 and 2015, respectively, primarily due to decreases in market interest rates in the U.S. dollar market. In addition, these losses include net gains (losses) of ($0.5 million) and $0.5 million during 2016 and 2015, respectively, resulting from changes in our credit risk valuation adjustments.

For additional information regarding our derivative instruments, see notes 5 and 6 to our consolidated financial statements.

Net earnings

We reported net earnings of $58.0 million and $14.2 million during 2016 and 2015, respectively, including (i) operating income of $112.7 million and $79.5 million, respectively, and (ii) non-operating expenses of $54.7 million and $65.3 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 does not represent a reliable source of income. In the absence of significant gains in the future from this source or from other non-operating items, our ability to achieve earnings from operations is largely dependent on our ability to increase our aggregate Segment OCF to a level that more than offsets the aggregate amount of our (i) share-based compensation expense, (ii) depreciation and amortization, (iii) impairment, restructuring and other operating items, net, (iv) interest expense and (v) other net non-operating expenses.

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

Liquidity and Capital Resources

Sources and Uses of Cash

We had $78.5 million of cash and cash equivalents at December 31, 2016. In addition to our existing cash and cash equivalents, the primary sources of our liquidity are cash provided by operations and borrowings available under the Liberty Puerto Rico Bank Facility, as further described in note 8 to our consolidated financial statements. From time to time, our Members may also agree to provide funding to us in the form of subordinated loans or equity contributions or require us to return funding in the form of subordinated loan repayments or equity distributions.

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

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

Capitalization

For the year ended December 31, 2016, (i) our consolidated first lien net leverage ratio was 3.39x and (ii) our consolidated total net leverage ratio was 4.27x, each as specified in, and calculated in accordance with, the Liberty Puerto Rico Bank Facility.

At December 31, 2016, the outstanding principal amount of our third-party debt, together with capital lease obligations, aggregated $942.7 million, including $0.2 million that is classified as current in our consolidated balance sheet and $942.5 million that is due in 2022 or thereafter. For additional information concerning our current 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. We believe that our cash and cash equivalents, the cash provided from our operations and any available borrowings under the Liberty Puerto Rico Bank Facility will be sufficient to fund our currently anticipated working capital needs, property and equipment additions and debt service requirements during the next 12 months, although no assurance can be given that this will be the case. No assurance can be given that our Members would agree to loan additional amounts to our company on a subordinated basis. We may seek to refinance the Liberty Puerto Rico Bank Facility prior to it's January 2022 maturity, and no assurance can be given that we will be able to complete this refinancing. In this regard, it is not possible to predict how political and economic conditions, sovereign debt concerns and/or any adverse regulatory developments could impact the credit markets we access and accordingly, our future liquidity and financial position. In addition, sustained or increased competition, particularly in combination with adverse economic or regulatory developments, could have an unfavorable impact on our cash flows and liquidity.

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

Consolidated Statements of Cash Flows

Summary. Our 2016 and 2015 consolidated statements of cash flows are summarized as follows:

	Year ended December 31, 2016	Year ended December 31, 2015	Change
	in millions		
Net cash provided by operating activities	$ 146.7	$ 113.4	$ 33.3
Net cash used by investing activities	(84.6)	(67.2)	(17.4)
Net cash used by financing activities	(49.3)	(2.4)	(46.9)
Net increase in cash and cash equivalents	$ 12.8	$ 43.8	$ (31.0)

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

Investing Activities. The increase in net cash used by our investing activities is attributable to the net effect of (i) an increase in cash used of $13.8 million related to higher capital expenditures and (ii) a decrease in cash used of $3.6 million due to cash acquired related to the Choice Acquisition in 2015.

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, which exclude amounts financed under capital lease arrangements, and (ii) our total property and equipment additions, which include our capital expenditures on an accrual basis and amounts financed under capital lease arrangements.

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

	Year ended December 31, 2016	Year ended December 31, 2015
	in millions	
Property and equipment additions	$ 91.0	$ 78.1
Changes in current liabilities related to capital expenditures	(6.4)	(7.3)
Capital expenditures	$ 84.6	$ 70.8

The increase in property and equipment additions is attributable to the net effect of (i) an increase in expenditures for the purchase and installation of customer premises equipment, (ii) an increase due to the impact of the Choice Acquisition, (iii) an increase in expenditures for new build and upgrade projects to expand services and (iv) a decrease in expenditures for support capital, such as information technology upgrades and general support systems. During 2016 and 2015, our property and equipment additions represented 21.6% and 20.6% of our revenue, respectively.

Financing Activities. The increase in net cash used by our financing activities is primarily due to (i) an increase in cash used of $35.0 million due to distributions to members and (ii) an increase in cash used of $13.3 million due the repayment of the Shareholder Loan.

Contractual Commitments

The following table sets forth our commitments as of December 31, 2016:

	Payments due during:						
	2017	2018	2019	2020	2021	Thereafter	Total
				in millions			
Debt (excluding interest)	$ —	$ —	$ —	$ —	$ —	$ 942.5	$ 942.5
Capital leases (excluding interest)	0.2	—	—	—	—	—	0.2
Network and connectivity commitments (a)	1.2	1.2	1.2	1.2	1.2	3.4	9.4
Operating leases	1.6	1.5	1.3	1.1	0.9	2.9	9.3
Total (b)	$ 3.0	$ 2.7	$ 2.5	$ 2.3	$ 2.1	$ 948.8	$ 961.4
Projected cash interest payments on third-party debt and capital lease obligations (c)	$ 48.9	$ 48.9	$ 49.0	$ 49.1	$ 48.9	$ 32.0	$ 276.8

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

(b) The commitments included in this table do not reflect any liabilities that are included in our December 31, 2016 consolidated balance sheets, other than debt and capital lease obligations.

(c) Amounts are based on interest rates, interest payment dates, commitment fees and contractual maturities in effect as of December 31, 2016. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. In addition, the amounts presented do not include the impact of our interest rate derivative contracts, deferred financing costs or original issue discounts.

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, 2016. 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, see note 5 to our consolidated financial statements.

	Payments due during:						
	2017	2018	2019	2020	2021	Thereafter	Total
				in millions			
Interest-related (a)	$ 10.1	$ 10.1	$ 8.7	$ 8.3	$ 8.3	$ 1.9	$ 47.4

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