Liberty Communications PR Holding LP

December 31, 2020 Annual Report

Liberty Communications PR Holding LP

1550 Wewatta Street, Suite 710
Denver, Colorado 80202

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FORWARD-LOOKING STATEMENTS

Certain statements in this report constitute forward-looking statements. To the extent that statements in this 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 the Business and Management's Discussion and Analysis of Financial Conditions and Results of Operation sections may contain forward-looking statements, including statements regarding: our business, product, service offering, or finance strategies; programming costs; subscriber growth and retention rates; changes in competitive, regulatory and economic factors; debt levels; our liquidity; the development of 5G technologies; compliance with debt, financial and other covenants and our ability to obtain additional debt; our future projected contractual commitments and cash flows; the impact of the novel Coronavirus; and other information and statements that are not historical fact. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. In evaluating these statements, you should consider the following list of some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

- economic and business conditions and industry trends;
- the competitive environment in the video, broadband, mobile and telecommunications industries, including competitor responses to our products and services;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt;
- changes in consumer viewing preferences and habits, including on mobile devices that function on various operating systems and specifications, limited bandwidth, and different processing power and screen sizes;
- customer acceptance of our existing service offerings, including our video, broadband internet, fixed-line telephony, mobile and business service offerings, and of new technology, programming alternatives and other products and services that we may offer in the future;
- our ability to manage rapid technological changes;
- the impact of 5G and wireless technologies;
- our ability to maintain or increase the number of subscriptions to our video, broadband internet, fixed-line telephony and mobile service 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 and adverse outcomes from regulatory proceedings;
- government intervention that requires opening our broadband distribution networks to competitors;
- our ability to successfully acquire new businesses and, if acquired, to integrate, realize anticipated efficiencies from, and implement our business plan with respect to, the businesses we have acquired or that we expect to acquire;
- changes in laws and government regulations that may impact the availability and cost of capital and the derivative instruments that hedge certain of our financial risks;
- the availability of attractive programming for our video services and the costs associated with such programming, including retransmission and copyright fees payable to public and private broadcasters;

- uncertainties inherent in the development and integration of new business lines and business strategies;
- our ability to adequately forecast and plan future network requirements, including the costs and benefits associated with our network extension and upgrade programs;
- the availability of capital for the acquisition and/or development of telecommunications networks and services, including property and equipment additions;
- problems we may discover post-closing with the operations, including the internal controls and financial reporting process, of businesses we acquire;
- piracy, targeted vandalism, and cybersecurity threats or other security breaches, including the leakage of sensitive customer data, which could harm our business or reputation;
- the outcome of any pending or threatened litigation;
- the loss of key employees and the availability of qualified personnel;
- changes in the nature of key strategic relationships with partners and joint venturers;
- changes in and compliance with applicable data privacy laws, rules, and regulations; and
- events that are outside of our control, such as political conditions and unrest in international markets; terrorist attacks; malicious human acts; natural disasters, such as but not limited to hurricanes, floods, tsunamis, earthquakes or other natural catastrophes or unusually severe weather; national emergency; pandemics, such as the novel Coronavirus; and any other cause, circumstances, or contingencies or other similar events beyond our control.

The broadband distribution and mobile service 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 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.

BUSINESS

Overview

Liberty Communications PR Holding LP (**Liberty PR**), formerly known as Leo Cable LP, holds a 100% interest in LCPR Cayman Holding Inc. (**Cayman Holding**) and a 100% interest in LCPR Ventures LLC (**LCPR Ventures**). We provide fixed (i.e. wireline) and mobile telecommunications services to residential and business customers in Puerto Rico and mobile telecommunications services in the U.S. Virgin Islands through (i) Liberty Communications of Puerto Rico LLC (**LCPR**), formerly known as Liberty Cablevision of Puerto Rico LLC, and (ii) as of October 31, 2020 and as further described in note 4, Liberty Mobile Inc. (**Liberty Mobile**) and its subsidiaries. Prior to October 17, 2018, Liberty Latin America Ltd. (**Liberty Latin America**) indirectly owned 60% of Liberty PR with the remaining interest owned by Searchlight Capital Partners L.P. (collectively, **Searchlight**). On October 17, 2018, a wholly-owned subsidiary of Liberty Latin America acquired Searchlight's 40% interest in Liberty PR, resulting in our company being an indirect wholly-owned subsidiary of Liberty Latin America. On October 31, 2020, LCPR acquired AT&T's wireless and wireline operations in Puerto Rico and the U.S. Virgin Islands in an all-cash transaction (the **AT&T Acquisition)** based upon an enterprise value of $1.95 billion.

In this report, the terms "**we**," "**our**," "**our company**" and "**us**" may refer, as the context requires, to Liberty PR or collectively to Liberty PR and its subsidiaries.

Residential Services

Mobile Services. We are a mobile network provider, delivering high-speed services in Puerto Rico. In Puerto Rico, spectrum licenses are typically held for perpetuity with the exception of CBRS spectrum which has a term of 10 years. We transmit wireless calls and data through radio frequencies that we use under spectrum licenses. We have a diversified portfolio of frequencies, which include supporting 5G technologies. While spectrum is a limited resource, and, as a result, we may face spectrum and capacity constraints on our wireless network. We believe our current spectrum portfolio will allow us to meet subscribers' needs in the coming years, although we will continue to evaluate our need to acquire additional frequencies to supplement our existing spectrum portfolio. For example, in 2020, we acquired CBRS (3.5 GHz) spectrum in Puerto Rico and the USVI in the auction for that frequency. In Puerto Rico and USVI the 700 MHz FirstNet (Band 14) is usable by us (when not occupied by first responders' traffic) but owned by AT&T and the First Responders Public Private Partnership.

In Puerto Rico and the USVI, we are a reseller of the national US FirstNet (Emergency/First Responders) network, which necessitates above-average network resilience and other customer performance requirements, subject to governmental penalties for non-compliance.

Video Services. We offer video services in Puerto Rico. To meet the demands of our customers, we have enhanced our video services with next generation, market-leading digital television platforms that enable our customers to control when and where they watch their programming. These advanced services are delivered over our FTTx and hybrid fiber coaxial cable networks and include a digital video recorder (**DVR**), a video-on-demand (**VoD**) offering and an advanced electronic programming guide. In Puerto Rico, our video customers can watch their favorite channels on the TiVO serviced Liberty Go app as well as access over 65 applications from content providers to watch streamed linear and VoD programming by authenticating as a Liberty PR customer.

Internet. We offer high-speed internet access throughout our entire footprint. Our fully digital, two-way HFC cable and FTTH network enables us to deliver ultra-high speed broadband Internet services. We have invested heavily in fixed and wireless infrastructure assets that enable us to deliver superior connectivity solutions to our customers and plan to continue to invest in technologies to increase the speed, reliability and resilience of our network. We deliver broadband Internet over a 12,825 mile, fully digital, two-way HFC cable and FTTH network, capable of delivering connectivity services, including our market-leading 500 Mbps broadband Internet speeds, to approximately 1,147,006 homes passed in Puerto Rico as of December 31, 2020. For three consecutive years, in 2017, 2018 and 2019, Ookla recognized us as the fasted fixed Internet service provider in Puerto Rico.

Fixed-Line Telephony Services. Liberty Puerto Rico offers fixed-line telephony services, including both circuit-switched telephony and Voice over Internet Protocol (**VoIP**). We similarly offer B2B customers enterprise class telephone services which include traditional multi-line phone service over DOCSIS and trunking solutions as well as optional addon services, such international calling, toll free calling and virtual receptionists.

In Puerto Rico, our network includes a fiber ring around the island that provides enhanced interconnectivity points to the island's other local and international telecommunications companies.

Regulatory Matters

Liberty PR is subject to regulation in Puerto Rico by various governmental entities at the Puerto Rico and the U.S. federal level, including the FCC and the Telecommunications Bureau of Puerto Rico (**TB**). TB has primary regulatory jurisdiction in Puerto Rico at the local level and is responsible for awarding franchises to cable operators for the provision of cable service in Puerto Rico, granting local exchange carriers (**LECs**) authorization to provide telecommunications services in Puerto Rico and regulating cable television and telecommunications services.

Our business in Puerto Rico and the USVI also is subject to comprehensive regulation under the United States Communications Act of 1934, as amended (the **Communications Act**), which regulates communication, telecommunication, mobile and cable television services. The Communications Act also provides the general legal framework for, among other things, the provision of telephone services, services related to interconnection between telephone carriers, and television, radio, cable television and direct broadcast satellite services.

The FCC and/or the TB have the authority to impose sanctions, including warnings, fines, license revocations and, in certain specific cases, termination of the franchise, although license revocation and franchise termination are rare. The Communications Act specifies causes for the termination of licenses, including, for example, the failure to comply with license requirements and conditions or to pay fines or fees in a timely manner. Such sanctions by the TB and/or FCC can be appealed to, and reviewed by, Puerto Rican courts and U.S. federal courts, respectively.

In May 2018, the FCC established the Uniendo a Puerto Rico Fund (**UPR Fund**) and Connect USVI Fund to provide subsidies for the deployment and hardening of fixed wireline and mobile wireless communications networks in Puerto Rico and USVI. Stage 1 of the UPR Fund and Connect USVI Fund made $51 million and $13 million of new funding available for Puerto Rico and USVI telecommunications providers, respectively, following Hurricanes Maria and Irma in 2017. Under Stage 1 of the UPR Fund, the FCC awarded approximately $11 million to LCPR.

Stage 2 of the UPR Fund and Connect USVI Fund made additional funding available to providers of services over fixed wireline networks through a competitive bidding process, and to mobile wireless providers subject to those providers meeting certain conditions.

To be eligible for Stage 2 of the UPR funding for fixed services, Liberty PR requested that TB designate it as an Eligible Telecommunications Carrier (**ETC**), which the TB did in June 2018. As part of its obligations as an ETC, Liberty PR must offer services to low income customers under the federal Lifeline Program and low-cost services to schools and libraries under the Schools and Libraries Program (**E-Rate**). Both programs provide FCC subsidies to ensure access to telecommunications and broadband access services for specified classes of customers. Liberty PR began offering Lifeline services in April 2019 and will bid on Funding Year 2022 for E-Rate subsidies.

In September 2019, the FCC established rules governing UPR Fund Stage 2 funding to support certain fixed and mobile providers of voice and broadband service in Puerto Rico and USVI. The FCC stated that it would award up to $505 million and $186.5 million over 10 years to eligible providers of fixed voice and broadband services in Puerto Rico and USVI, respectively, through a single round competitive bidding process that would select one support recipient in each of the 78 municipalities in Puerto Rico and in two geographic areas of USVI, using a specified formula for evaluating bids. Entities winning Stage 2 support must also: (1) submit to the FCC's Wireline Competition Bureau (Bureau) a detailed network deployment plan as well as a plan that describes and commits to the methods and procedures that will be used to prepare for and respond to disasters in Puerto Rico and USVI; and (2) participate in the FCC's Disaster Information Report System, which is a web-based system that communications companies can use to report to the FCC communications infrastructure status during disasters.

On February 5, 2020, the Bureau released a Public Notice that established the application requirements and submission process for the UPR Fund and Connect USVI Fund Stage 2 competition. The Bureau later released an application form and instructions, and announced the application deadline. On November 2, 2020 LCPR received preliminary approval from the FCC for an award of approximately $71.54 million through the UPR Fund. The funds are in support of providing high-speed broadband access to all locations within 43 of Puerto Rico's 78 municipalities, representing service to over 914,000 locations. Liberty PR is in the process of submitting all required materials to finalize its award and is awaiting final FCC action.

With respect to Stage 2 UPR funding for mobile wireless providers, the FCC also established in September 2019 that mobile wireless providers providing service in Puerto Rico as of June 2017 were eligible to receive up to $254 million over three years based on their relative number of subscribers for such service as of June 2017. In order to obtain such support, the mobile providers were required to confirm the number of mobile wireless subscribers they served as of June 2017, and obtain FCC approval of a plan that describes and commits to the methods and procedures that will be used to prepare for and respond to disasters in Puerto Rico. Liberty PR's predecessor wireless provider in Puerto Rico (**AT&T**) submitted the required documentation and in June 2020, the FCC authorized that entity to receive approximately $33 million in funding per year over three years.

That entity had previously obtained the required ETC designation in Puerto Rico. Liberty PR, having purchased that business in the AT&T Acquisition, will now receive those funds.

In Puerto Rico, antitrust regulation is governed by the U.S. Sherman Act, other federal antitrust legislation, and the Puerto Rico Anti-Monopoly Law. In particular, the Sherman Act seeks to prevent anti-competitive practices in the marketplace and requires governmental review of certain business combinations, among other things. The Puerto Rico Anti-Monopoly Law substantially parallels the Sherman Act and authorizes the Puerto Rico Department of Justice to investigate and impose competition-related conditions on transactions. The Attorney General of Puerto Rico is permitted to investigate a transaction under federal law or under the Puerto Rico Anti-Monopoly Law.

Puerto Rico Law 5 of 1973, as amended, created the Puerto Rico Department of Consumer Affairs, which regulates marketing campaigns, publicity, and breach of service contracts, and prohibits false advertising. The Puerto Rico Telecommunications Act of 1996 (**Law 213**), which created the TB, requires that rates for telecommunication services be cost-based, forbids cross-subsidies and focuses on encouraging, preserving and enforcing competition in the cable and telecommunications markets. Although Law 213 does not require LCPR to obtain any approval of rate increases for cable television or telecommunication services, any such increases must be in compliance with Law 213's requirements, including notification to the TB before such increases take effect.

Video. The provision of cable television services requires a franchise issued by the TB. Franchises are subject to termination proceedings in the event of a material breach or failure to comply with certain material provisions set forth in the franchise agreement governing a franchisee's system operations, although such terminations are rare. In addition, franchises require payment of a biannual franchise fee as one of the requirements to the grant of authority. Franchises establish comprehensive facilities and service requirements, as well as specific customer service standards and monetary penalties for non- compliance. Franchises are generally granted for fixed terms of up to ten years and must be periodically renewed.

Our pay television service in Puerto Rico is subject to, among other things, subscriber privacy regulations and must-carry and retransmission consent rights of broadcast television stations. The Communications Act and FCC rules govern aspects of the carriage relationship between broadcast television stations and cable systems. To ensure that every qualifying local television station can be received in its local market without requiring a cable subscriber to switch between cable and off-air signals, the FCC allows every qualifying full-power television broadcast station to require that all local cable systems transmit that station's primary digital channel to their subscribers within the station's market (the **must-carry rule**) pursuant to the Cable Television Consumer Protection and Competition Act of 1992. Alternatively, a station may elect every three years to forego its must carry rights and seek a negotiated agreement to establish the terms of its carriage by a local cable system, referred to as retransmission consent.

Internet. Liberty PR offers high-speed Internet access throughout its entire footprint in Puerto Rico. In March 2015, the FCC issued an order classifying mass-market broadband Internet access service as a "telecommunications service," changing its long-standing treatment of this offering as an "information service," which the FCC traditionally has subjected to limited regulation. The rules adopted by the FCC prohibited, among other things, broadband providers from: (i) blocking access to lawful content, applications, services or non-harmful devices; (ii) impairing or degrading lawful internet traffic on the basis of content, applications, services or non-harmful devices; and (iii) favoring some lawful Internet traffic over other lawful Internet traffic in exchange for consideration (collectively, **2015 Restrictions**). In addition, the FCC prohibited broadband providers from unreasonably interfering with users' ability to access lawful content or use devices that do not harm the network, or with edge providers' ability to disseminate their content, and imposed more detailed disclosure obligations on broadband providers than were previously in place. On December 14, 2017, the FCC adopted a Declaratory Ruling, Report and Order (the **2017 Order**) that, in large part, reversed the regulations issued by the FCC in 2015. The 2017 Order, among other things, restores the classifications of broadband Internet access as an information service under Title I of the Communications Act, and mobile broadband Internet access service as a private mobile service, and eliminates the 2015 Restrictions. The 2017 Order does require ISPs to disclose information to consumers regarding practices such as throttling, paid prioritization and affiliated prioritization, and restores the Federal Trade Commission's authority over broadband services with respect to consumer protection, privacy and competitive issues. On October 1, 2019, the United States Court of Appeals for the District of Columbia Circuit (D.C. Circuit) ruled on numerous appeals of the 2017 Order by interested parties. The D.C. Circuit largely upheld the 2017 Order. However, it vacated that portion of the 2017 Order preempting inconsistent state or local regulations, and remanded the 2017 Order to the FCC for further consideration of its effect on public safety, pole attachment regulation, and the Lifeline support program. On October 27, 2020, the FCC adopted an order on remand reaffirming its findings from the 2017 Order in all respects other than preemption, which it did not address. With the change in administration and control of Congress following the 2020 election, it is possible that the FCC may re-impose obligations similar to the 2015 Restrictions, and/or that Congress may address these issues through legislation.

Fixed-Line Telephony Services. Liberty PR offers fixed-line telephony services, including both circuit-switched telephony and VoIP. Its circuit-switched telephony services are subject to FCC and local regulations regarding the quality and technical aspects of service. All local telecommunications providers, including Liberty PR, are obligated to provide telephony service to all customers within the service area, subject to certain exceptions under FCC regulations, and must give long distance telephony service providers equal access to their network. Under the Communications Act, competitive local exchange carriers (**CLECs**), like us, may require interconnection with the incumbent local exchange carrier (**ILEC**), and the ILEC must negotiate a reasonable and nondiscriminatory interconnection agreement with the CLEC. Such arrangement requires the ILEC to interconnect with the CLEC at any technically feasible point within the ILEC's network, provide access to certain unbundled network elements of the ILEC's network, and allow physical collocation of the CLEC's equipment in the ILEC's facilities to permit interconnection or access to unbundled network element services. Therefore, we have the right to interconnect with the incumbent local exchange carrier Puerto Rico Telephone Company (**PRTC**), doing business as Claro Puerto Rico. We have negotiated an interconnection agreement with PRTC, and the physical interconnection between both companies has been activated.

All of the circuit-switched telephony and VoIP services of Liberty PR are subject to a charge for the federal Universal Service Fund (**USF**), which is a fund created under the Communications Act to subsidize telecommunication services in high-cost areas, to provide telecommunications services for low-income consumers, and to provide certain subsidies for schools, libraries and rural healthcare facilities, including telemedicine. In addition, our circuit-switched telephony and VoIP services are subject to a charge for a local Puerto Rico Universal Service Fund, which was created by local law and currently subsidizes (a) voice or broadband services for low-income families under the federal USF Lifeline and Link-Up programs; and (b) Telecommunication Relay Services in Puerto Rico.

The FCC has adopted other regulations for VoIP services, including the requirement that interconnected VoIP providers and facilities-based broadband internet access providers comply with the Communications Assistance for Law Enforcement Act, which requires carriers to provide certain assistance to federal law enforcement authorities. VoIP providers are also required to offer basic and enhanced 911 emergency calling services. VoIP providers are also subject to federal customer proprietary network information rules related to customer privacy.

Mobile Services. Liberty Mobile Puerto Rico and Liberty Mobile U.S. Virgin Islands offer mobile services in Puerto Rico and the U.S. Virgin Islands. The FCC regulates virtually all aspects of United States wireless communications systems, including spectrum licensing, tower and antenna construction, modification and operation, the ownership and sale of wireless systems and licenses, as well as the acquisition and use of wireless spectrum. Local governments, such as in Puerto Rico and the U.S. Virgin Islands, typically regulate the placement of wireless towers and similar facilities via zoning laws. At present, neither the FCC nor state or local governments regulate specific service offerings or rate plans. In addition, other federal and state agencies have asserted jurisdiction over consumer protection and the elimination and prevention of anticompetitive business practices in the wireless industry. In Puerto Rico, the TB has jurisdiction over wireless service complaints. In the USVI, the Department of Licensing and Consumer Affairs has asserted such jurisdiction. The specific issues as to which our United States mobile services operations are subject to regulatory oversight include, among other things: roaming, interconnection, spectrum allocation and licensing, facilities siting, pole attachments, intercarrier compensation, USF contributions and distributions (such as through the UPR Fund and Connect USVI Fund), network neutrality, 911 services, consumer protection, consumer privacy, and cybersecurity. Failure to comply with applicable regulations could subject us to fines, forfeitures, and other penalties (including, in extreme cases, revocation of our spectrum licenses), even if any non-compliance was unintentional.

Foreign Ownership. The Communications Act and the FCC's rules limit the equity and voting interests that foreign individuals and entities may hold directly in certain FCC licensees and spectrum lessees to twenty percent (20%). The Communications Act and the FCC's rules also limit indirect foreign equity and voting interests in such FCC licensees and spectrum lessees to twenty-five (25%) absent prior FCC approval.

Privacy and Data Security. Liberty PR is subject to federal, state and international laws and regulations relating to privacy and data security that impact all parts of its business, including video, wireline, wireless, broadband and the development of new services. At the federal level, Liberty PR's video and voice businesses are subject to privacy rules. The FTC oversees broadband internet access privacy and data security as a result of the 2017 Order. Privacy and data security concerns and requirements increasingly are the subject of proposed legislation and regulation at federal and state levels, and privacy-related legislation is under consideration.

Competition

Mobile and Telephony Services

- Liberty PR competes with T-Mobile US, PRTC, and certain mobile virtual network operators (MVNOs) for the provision of mobile services. Of that list, Liberty PR primarily competes with T-Mobile US and PRTC, who is the ILEC in Puerto Rico. For B2B, Liberty PR primarily competes with PRTC and WorldNet.

Broadband Internet

- Liberty PR competes primarily with PRTC and other operators using fiber networks or fixed wireless access technologies. To compete with these providers, Liberty PR offers its high-speed Internet with download speeds of up to 500 Mbps.

Video Distribution

- Liberty PR is the largest provider of fixed-line video services in Puerto Rico with 50% of the market share. Liberty PR's primary competition for video customers is from DTH satellite providers DirecTV and Dish Network Corporation (**Dish Network**). Dish Network is an aggressive competitor, offering low introductory offers, free HD channels and, in its top tier packages, a free multi-room DVR service. DirecTV is also a significant competitor offering similar programming in Puerto Rico compared to Dish Network. In order to compete, Liberty PR focuses on offering video packages with attractive programming, including HD and Spanish language channels, plus a specialty video package of Spanish-only channels that has gained popularity. In addition, Liberty PR uses its bundled offers that include high-speed internet with download speeds of up to 500 Mbps to drive its video services.

Human Capital Resources

- Liberty PR has approximately 2,200 employees.

Operating Data

The following table presents our operating statistics as of December 31, 2020:

Footprint:	
Homes Passed	1,137,700
Fixed Subscribers (RGUs): (a)	
Video	235,200
Internet	434,300
Telephony	236,100
Total RGUs	905,600
Mobile subscribers: (b)	
Postpaid (c)	783,600
Prepaid	239,000
Total mobile subscribers	1,022,600
Network data:	
Two-way homes passed (d)	100 %
Homes passed:	
Cable (e)	98 %
FTTx (e)	2 %
Product Penetration:	
Television (f)	21 %
Broadband internet (f)	38 %
Fixed-line telephony (f)	21 %
Fixed-line Customer relationships	
Customer Relationships	480,500
RGUs per Customer Relationship	1.88
Customer bundling	
Double-play (g)	11 %
Triple-play (g)	39 %

(a) RGU balances do not include 11,200 fixed RGUs representing customers that, due to the impact of COVID-19, have not been disconnected in accordance with our normal disconnect policy for non-payment and were moved to an "essential services plan", a basic service plan.

(b) On October 31, 2020, we closed the AT&T Acquisition at which point we began to provide mobile services. Mobile subscriber information associated with the AT&T Acquisition is preliminary and subject to adjustment until we have completed our review of such information and determined that it is presented in accordance with our policies.

(c) Postpaid mobile subscribers include 126,800 Corporate Responsible Users (**CRU**). A CRU represents an individual receiving mobile services through an organization that has entered into a contract for mobile services with us and the organization is responsible for the payment of the CRU's mobile services.

(d) Percentage of total homes passed that are two-way homes passed.

(e) Percentage of two-way homes passed served by a cable or fiber-to-the-home/-cabinet/-building/-node (**FTTx**), as applicable.

(f) Percentage of two-way homes passed that subscribe to television, broadband internet or fixed-line telephony services, as applicable.

(g) Percentage of total customers that subscribe to two services (double-play customers) or three services (triple-play customers) offered by our operations (video, broadband internet and fixed-line telephony), as applicable.

Operating Data Glossary

Customer Relationships – The number of customers who receive at least one of our video, internet or telephony services that we count as RGUs, without regard to which or to how many services they subscribe. To the extent that RGU counts include equivalent billing unit ("**EBU**") adjustments, we reflect corresponding adjustments to our customer relationship counts. For further information regarding our EBU calculation, see Additional General Notes below. Customer relationships generally are counted on a unique premises basis. Accordingly, if an individual receives our services in two premises (e.g., a primary home and a vacation home), that individual generally will count as two customer relationships. We exclude mobile-only customers from customer relationships.

Homes Passed – Homes, residential multiple dwelling units or commercial units that can be connected to our networks without materially extending the distribution plant. Certain of our homes passed counts are based on census data that can change based on either revisions to the data or from new census results.

Internet (Broadband) RGU – A home, residential multiple dwelling unit or commercial unit that receives internet services over our network.

Mobile Subscribers – Our mobile subscriber count represents the number of active subscriber identification module ("**SIM**") cards in service rather than services provided. For example, if a mobile subscriber has both a data and voice plan on a smartphone this would equate to one mobile subscriber. Alternatively, a subscriber who has a voice and data plan for a mobile handset and a data plan for a laptop (via a dongle) would be counted as two mobile subscribers. Customers who do not pay a recurring monthly fee are excluded from our mobile telephony subscriber counts after periods of inactivity of 60 days. A portion of our mobile subscribers receive mobile services pursuant to prepaid contracts.

Revenue Generating Unit (RGU) – RGU is separately a video RGU, internet RGU or telephony RGU. A home, residential multiple dwelling unit, or commercial unit may contain one or more RGUs. For example, if a residential customer subscribed to our video service, fixed-line telephony service and broadband internet service, the customer would constitute three RGUs. RGUs are generally counted on a unique premises basis such that a given premises does not count as more than one RGU for any given service. On the other hand, if an individual receives one of our services in two premises (e.g., a primary home and a vacation home), that individual will count as two RGUs for that service. Each bundled video, internet or telephony service is counted as a separate RGU regardless of the nature of any bundling discount or promotion. Non-paying subscribers are counted as RGUs during their free promotional service period. Some of these subscribers may choose to disconnect after their free service period. Services offered without charge on a long-term basis (e.g., VIP subscribers or free service to employees) generally are not counted as RGUs. We do not include subscriptions to mobile services in our externally reported RGU counts. In this regard, our RGU counts exclude our separately reported postpaid and prepaid mobile subscribers.

SOHO - Small office/ home office customers.

Telephony RGU – A home, residential multiple dwelling unit or commercial unit that receives voice services over our network. Telephony RGUs exclude mobile subscribers.

Two-way Homes Passed – Homes passed by those sections of our networks that are technologically capable of providing two-way services, including video, internet and telephony services.

Video RGU – A home, residential multiple dwelling unit or commercial unit that receives our video service over our network primarily via a digital video signal while subscribing to any recurring monthly service that requires the use of encryption-enabling technology. Video RGUs that are not counted on an EBU basis are generally counted on a unique premises basis. For example, a subscriber with one or more set-top boxes that receives our video service in one premises is generally counted as just one RGU.

Additional General Notes:

We provide telephony, broadband internet, data, video or other B2B services. Certain of our B2B service revenue is derived from SOHO customers that pay a premium price to receive enhanced service levels along with video, internet or telephony services that are the same or similar to the mass marketed products offered to our residential subscribers. All mass marketed products provided to SOHO customers, whether or not accompanied by enhanced service levels and/or premium prices, are included in the respective RGU and customer counts of our operations, with only those services provided at premium prices considered to be “SOHO RGUs” or “SOHO customers.” To the extent our existing customers upgrade from a residential product offering to a SOHO product offering, the number of SOHO RGUs and SOHO customers will increase, but there is no impact to our total RGU or customer counts. With the exception of our B2B SOHO customers, we generally do not count customers of B2B services as customers or RGUs for external reporting purposes.

Certain of our residential and commercial RGUs are counted on an EBU basis, including residential multiple dwelling units and commercial establishments, such as bars, hotels, and hospitals. Our EBUs are generally calculated by dividing the bulk price charged to accounts in an area by the most prevalent price charged to non-bulk residential customers for the comparable tier of service. As such, we may experience variances in our EBU counts solely as a result of changes in rates.

While we take appropriate steps to ensure that subscriber and homes passed statistics are presented on a consistent basis period over period and accurate basis at any given balance sheet date, due to (i) the nature and pricing of products and services, (ii) the distribution platform, (iii) billing systems, (iv) bad debt collection experience and (v) other factors, there is complexity to the subscriber and homes passed counting process. Accordingly, we periodically review our subscriber and homes passed counting policies and underlying systems to improve the accuracy and consistency of the data reported on a prospective basis. As a result, we may from time to time make appropriate adjustments to our subscriber and homes passed statistics based on those reviews.

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:

- *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, 2020 and 2019.
- *Liquidity and Capital Resources.* This section provides an analysis of our liquidity, consolidated statements of cash flows and contractual commitments.

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

Overview

General

We are a provider of fixed and mobile telecommunications services to residential and business customers in Puerto Rico and the U.S. Virgin Islands. On October 31, 2020, we closed the AT&T Acquisition at which point we began to provide mobile services and operate in the U.S. Virgin Islands. As further described in note 1 to our consolidated financial statements, we are an indirect wholly-owned subsidiary of Liberty Latin America.

Operations

At December 31, 2020, we (i) owned and operated fixed networks that passed 1,137,700 homes and served 905,600 revenue generating units (**RGUs**), comprising 434,300 broadband internet subscribers, 235,200 video subscribers and 236,100 fixed-line telephony subscribers and (ii) served 1,022,600 mobile subscribers. Mobile subscriber information associated with the AT&T Acquisition is preliminary and subject to adjustment until we have completed our review of such information and determined that it is presented in accordance with our policies.

COVID-19

In December 2019, COVID-19 was reported in Wuhan, China. On March 11, 2020, the World Health Organization declared the outbreak a "pandemic," pointing to the sustained risk of further global spread. To date, confirmed cases of COVID-19 have been experienced in Puerto Rico. Although we have had some impacts due to resulting lockdowns, COVID-19 has not had a material impact on our financial position, results of operations or liquidity through December 31, 2020. The extent to which COVID-19 continues to impact our operational and financial performance will depend on certain developments, which include, among other factors:

- the duration and spread of the outbreak;
- the ability of our government and medical professionals to respond further to the outbreak, including securing access to a vaccine and vaccinating citizens;
- the impact of changes to, or new, government regulations imposed in response to the pandemic, including laws and moratoriums;
- the impact on our customers and our sales cycles;
- the impact on actual and expected customer receivable collection patterns, including the impact of such patterns on our allowance for bad debt provisions following the adoption of ASU 2016-13 on January 1, 2020;
- the impact on our employees, including that from labor shortages or work from home initiatives;
- the impacts on interest rate fluctuations; and
- the effect on our vendors, as COVID-19 could have adverse impacts on our supply chain thereby impacting our customers' ability to use our services.

Given the impacts of COVID-19 continue to rapidly evolve, the extent to which COVID-19 may impact our future financial condition or results of operations continues to be uncertain and cannot be predicted at this time. The heightened volatility of global markets resulting from COVID-19 further expose us to risks and uncertainties.

As COVID-19 continues to spread, we have, and expect to continue to take, a variety of measures to promote the safety and security of our employees, and ensure the availability of our communication services.

AT&T Acquisition

On October 9, 2019, we and Liberty Latin America agreed to acquire AT&T's wireless and wireline operations in Puerto Rico and the U.S. Virgin Islands in an all-cash transaction. The AT&T Acquisition closed on October 31, 2020. In connection with the AT&T Acquisition we paid $1.9 billion, as further described in note 4 to our consolidated financial statements. We financed this acquisition through a combination of net proceeds from the 2027 LPR Senior Secured Notes, the 2027 LPR Senior Secured Notes Add-on, the 2026 SPV Credit Facility and an equity contribution from Liberty Latin America's available liquidity. In connection with the AT&T Acquisition, we expect to incur significant operating and capital costs to integrate the businesses of AT&T with our existing operations in Puerto Rico, including during 2021 approximately $35 million to $40 million of integration-related costs. We expect that we will generate synergies during 2021 of approximately $10 million.

As a regulatory condition to close, we were required to dispose of, among other assets, a small B2B business in our existing operations. The disposal of this B2B business closed in early January 2021.

Strategy and Management Focus

From a strategic perspective, we are seeking to build or acquire broadband communications and mobile businesses that have strong prospects for future growth.

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

From an operational perspective, we are focused on our customer experience and increasing efficiencies. In addition, we embarked on digital transformation efforts.

We are engaged in network extension and upgrade programs. We collectively refer to these network extension and upgrade programs as the "**Network Extensions**." The Network Extensions will be completed in phases with priority given to the most accretive expansion opportunities. During 2020, our network extension and upgrade programs passed approximately 26,000 homes across our footprint. Depending on a variety of factors, including the financial and operational results of the programs, the Network Extensions may be continued, modified or cancelled at our discretion.

For information regarding our expectation with regard to property and equipment additions as a percent of revenue during 2021, see *Liquidity and Capital Resources—Consolidated Statements of Cash Flows* below.

Competition and Other External Factors

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

Internal Controls and Procedures

As of December 31, 2020, we have identified the following material weakness:

- The Company did not have a sufficient number of trained resources with the appropriate skills and knowledge with assigned responsibilities and accountability for the design and operation of general information technology (**IT**) controls.
- The Company did not have an effective risk assessment process that successfully identified and assessed risks of misstatement to ensure all general IT controls and the related automation were designed and implemented to respond to those risks. The Company did not adequately communicate the changes necessary in financial reporting and related general IT controls throughout its organization.
- The Company did not have an effective information and communication process to identify, capture and process relevant information necessary for financial accounting and reporting.
- The Company did not (i) establish effective general information technology controls (**GITCs**), specifically access controls, commensurate with financial and IT personnel job responsibilities that support the consistent operation of the Company's IT operating systems and databases, and (ii) have policies and procedures through which general information technology controls are deployed across the organization. Automated process-level controls and manual controls dependent upon the accuracy and completeness of information derived from information technology systems were also rendered ineffective because they are affected by the lack of GITCs.

As a consequence, the Company did not effectively design, implement and operate process-level control activities related to procure-to-pay (including operating expenses, prepaid expenses, accounts payable, and accrued liabilities), hire-to-pay (including compensation expense and accrued liabilities), long-lived assets, inventory and other financial reporting processes.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

These control deficiencies did not result in identified material misstatements in our consolidated financial statements as of and for the year ended December 31, 2020.

Management's Remediation Plan

We have initiated a plan to remediate the aforementioned material weakness in internal control over financial reporting as follows:

- Hire, train, and retain individuals with appropriate skills and experience, assign responsibilities and hold individuals accountable for their roles related to GITCs and the related automation.
- Design and implement a comprehensive and continuous risk assessment process for GITCs to identify and assess risks of material misstatement and ensure that the impacted financial reporting processes and related internal controls are properly designed and in place to respond to those risks in our financial reporting.
- Design and implement GITCs over the enterprise resource planning and stock management systems, and ensure they are operating effectively to support process-level automated and manual control activities that are dependent upon information derived from IT systems.

We are actively engaged in remediating our existing material weaknesses. We are unable to currently estimate how long full remediation will take. If our remedial measures are insufficient to address the material weaknesses, or if one or more additional material weaknesses in our internal controls over financial reporting are discovered, we may be required to take additional remedial measures from our plan as disclosed above.

Results of Operations

The comparability of our operating results during 2020 and 2019 is affected by the AT&T Acquisition. "Organic" changes during 2020, as compared with 2019, exclude the impact of the AT&T Acquisition. In the following discussion, we quantify the estimated impact on the operating results of the periods under comparison that is attributable to the AT&T Acquisition. Organic changes and the calculations of our organic change percentages exclude the operating results of the AT&T Acquired Entities during the first 12 months following the date of acquisition.

As further described in note 15 to our consolidated financial statements, certain B2B operations under common control in Puerto Rico were transferred from C&W to LCPR. This did not have a significant impact on our financial results.

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

Adjusted OIBDA

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

	Year ended December 31,	
	2020	2019
	in millions	
Operating income	$ 94.2	$ 101.4
Share-based compensation expense	5.1	2.2
Related-party fees and allocations	15.2	9.5
Depreciation and amortization	105.5	85.4
Impairment, restructuring and other operating items, net	56.9	4.7
Adjusted OIBDA	$ 276.9	$ 203.2

The following table sets forth organic and non-organic changes in Adjusted OIBDA for the period indicated (in millions):

Adjusted OIBDA for the twelve months ending:	
December 31, 2019	$ 203.2
Organic changes related to:	
Revenue	37.8
Programming and other direct costs	(6.1)
Other operating costs and expenses	(14.0)
Non-organic increase:	
AT&T Acquisition	56.0
December 31, 2020	$ 276.9

Revenue

We derive our revenue primarily from (i) residential fixed services, including video, broadband internet and fixed-line telephony, (ii) beginning in November 2020, residential mobile services, including inbound roaming and equipment sales, following the close of the AT&T Acquisition, and (iii) B2B services.

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

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

For the comparison below, revenue variances were influenced by the impacts of COVID-19, as further discussed below and in the *Overview* above.

Our revenue by major category is set forth below:

	Year ended December 31,		Increase (decrease)	
	2020	2019	$	%
	in millions, except percentages			
Residential fixed revenue:				
Subscription revenue:				
Video	$ 147.2	$ 140.9	$ 6.3	4.5
Broadband internet	204.7	175.0	29.7	17.0
Fixed-line telephony	25.5	23.4	2.1	9.0
Total subscription revenue	377.4	339.3	38.1	11.2
Non-subscription revenue	17.7	21.7	(4.0)	(18.4)
Total residential fixed revenue	395.1	361.0	34.1	9.4
Residential mobile revenue:				
Service revenue	82.9	—	82.9	N.M.
Interconnect, inbound roaming, equipment sales and other (a)	50.6	—	50.6	N.M.
Total residential mobile revenue	133.5	—	133.5	N.M
Total residential revenue	528.6	361.0	167.6	46.4
B2B service revenue	89.8	51.1	38.7	75.7
Other revenue (b)	5.7	—	5.7	N.M.
Total	$ 624.1	$ 412.1	$ 212.0	51.4

N.M. — Not Meaningful.

(a) Revenue from inbound roaming was $11 million in 2020.

(b) Amount relates to revenue received from the FCC related to Liberty Mobile following the closing of the AT&T Acquisition.

The details of the changes in our revenue during the year ended December 31, 2020, as compared to 2019, are set forth below (in millions):

Increase in residential fixed subscription revenue due to change in:		
Average number of RGUs (a)	$	33.2
ARPU (b)		4.9
Decrease in residential fixed non-subscription revenue (c)		(4.0)
Total increase in residential fixed revenue		34.1
Increase in B2B service (d)		3.7
Total organic increase		37.8
Impact of an acquisition		174.2
Total	$	212.0

(a) The increase is primarily attributable to higher average broadband internet RGUs, as we experienced increased demand due in part to the impact of COVID-19 work-from-home mandates.

(b) The increase is primarily attributable to the net effect of (i) higher ARPU from broadband internet and video services and (ii) $2 million of credits issued to customers in connection with the earthquakes that impacted Puerto Rico in January 2020.

(c) The decrease is primarily due to reconnect and late fee revenues, as such fees were generally waived during the second and third quarters in response to impacts of COVID-19.

(d) The increase primarily relates to the C&W Transfer.

Programming and other direct costs of services

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

The following table sets forth our organic changes in programming and other direct costs of services.

	Year ended December 31,			Increase from:	
	2020	2019	Increase	Acquisition	Organic
			in millions		
Programming and copyright	$ 91.9	$ 85.0	$ 6.9	$ 1.9	$ 5.0
Interconnect and commissions	14.2	7.5	6.7	6.0	0.7
Equipment and other	58.2	0.3	57.9	57.5	0.4
Total programming and other direct costs of services	$ 164.3	$ 92.8	$ 71.5	$ 65.4	$ 6.1

- **Programming and copyright:** The organic increase is primarily due to (i) a higher average number of video subscribers, (ii) an accrual recorded in the second quarter of 2020 related to an audit of programming services provided in 2018 and 2019 and (iii) higher programming rates.

- **Interconnect and commissions:** The organic increase is primarily due to the C&W Transfer.

Other operating costs and expenses

Other operating costs and expenses set forth in the table below comprise the following cost categories:

- **Personnel and contract labor-related costs**, which primarily include salary-related and cash bonus expenses, net of capitalizable labor costs, and temporary contract labor costs;

- **Network-related** expenses, which primarily include costs related to network access, system power, core network, and CPE repair, maintenance and test costs;

- **Service-related** costs, which primarily include professional services, information technology-related services, audit, legal and other services;

- **Commercial**, which primarily includes sales and marketing costs, such as advertising, commissions and other sales and marketing-related costs, and customer care costs related to outsourced call centers;

- **Facility, provision, franchise and other**, which primarily includes facility-related costs, provision for bad debt expense, franchise-related fees, bank fees, insurance, travel and entertainment and other operating-related costs; and

- **Share-based compensation** costs that relate to Liberty Latin America share-based incentive awards held by certain of our employees, as further described in note 16 to our consolidated financial statements.

The following table sets forth our organic changes in other operating costs and expenses.

	Year ended December 31,			Increase (decrease) from:	
	2020	2019	Increase	Acquisition	Organic
			in millions		
Personnel and contract labor	$ 62.1	$ 39.5	$ 22.6	$ 13.5	$ 9.1
Network-related	6.7	4.5	2.2	2.5	(0.3)
Service-related	24.9	10.6	14.3	7.9	6.4
Commercial	19.0	10.9	8.1	5.7	2.4
Facility, provision, franchise and other	70.2	50.6	19.6	23.2	(3.6)
Share-based compensation expense	5.1	2.2	2.9	—	2.9
Total other operating costs and expenses	$ 188.0	$ 118.3	$ 69.7	$ 52.8	$ 16.9

- **Personnel and contract labor:** The organic increase is primarily due to the net effect of (i) annual salary increases, (ii) higher sales commissions and (iii) $1 million of estimated bonus-related expense that has been recognized as share-based compensation expense, as certain 2020 bonuses will be paid in the form of equity in Liberty Latin America, as further discussed below under *Share-based compensation expense*;

- **Service-related:** The organic increase is primarily due to integration costs of $6 million associated with the AT&T Acquisition.

- **Facility, provision, franchise and other:** The organic decrease is primarily due to lower bad debt expense driven by improved collections.

Share-based compensation expense (included in other operating costs and expenses)

Our share-based compensation expense primarily includes amounts allocated to our company from Liberty Latin America, as further described in note 16 to our consolidated financial statements. We recognized share-based compensation expense of $5 million and $2 million during 2020 and 2019, respectively.

Related-party fees and allocations

We recorded related-party fees and allocations of $15 million and $10 million during 2020 and 2019, respectively. These amounts include charges for services provided to our company by Liberty Latin America or subsidiaries of Liberty Latin America.

For additional information regarding our related-party fees and allocations, see note 16 to our consolidated financial statements.

Depreciation and amortization expense

Our depreciation and amortization expense increased $20 million or 23.5% during 2020, as compared to 2019. Excluding the impact of the AT&T Acquisition, depreciation and amortization remained relatively unchanged.

Impairment, restructuring and other operating items, net

We recognized impairment, restructuring and other operating items, net, of $57 million during 2020, as compared to $5 million during 2019. The 2020 and 2019 amounts primarily include direct acquisition costs related to the AT&T Acquisition and legal fees associated with the divestiture of the B2B business required under the AT&T Acquisition.

For additional information regarding the AT&T Acquisition and related divestiture, see note 4 to our consolidated financial statements.

Interest expense

Our interest expense increased $71 million during 2020, as compared to 2019, primarily due to a higher average outstanding debt balance associated with the October 2019 issuance of the 2027 LPR Senior Secured Notes and the May 2020 issuance of the 2027 LPR Senior Secured Notes Add-on.

For additional information regarding our outstanding indebtedness, see note 9 to our consolidated financial statements.

It is possible that the interest rates on (i) any new borrowings could be higher than the current interest rates on our existing indebtedness and (ii) our variable-rate indebtedness could increase in future periods. As further discussed in note 5 to our consolidated financial statements, we use derivative instruments to manage our interest rate risks.

Interest income

We recognized interest income of $5 million and $3 million during 2020 and 2019, respectively, primarily related to interest earned on the AT&T Acquisition Restricted Cash. For additional information regarding the AT&T Acquisition Restricted Cash, see note 9 to our consolidated financial statements.

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

Our realized and unrealized gains or losses on derivative instruments primarily include (i) unrealized changes in the fair values of our derivative instruments that are non-cash in nature until such time as the derivative contracts are fully or partially settled and (ii) realized gains or losses upon the full or partial settlement of the derivative contracts. The details of our realized and unrealized gains or losses on derivative instruments are as follows:

	Year ended December 31,	
	2020	**2019**
	in millions	
Interest rate derivative contracts (a)	$ (80.1)	$ (26.9)
Weather Derivative (b)	(3.5)	(1.0)
Total	$ (83.6)	$ (27.9)

(a) The losses during 2020 and 2019 primarily relate to changes in market interest rates in the U.S. dollar market. In addition, the losses during 2020 and 2019 include net gains of $3 million and $2 million, respectively, resulting from changes in our credit risk valuation adjustments. The gain during the 2020 period is primarily due to increased credit risk stemming from market reaction to the COVID-19 outbreak.

(b) Amounts are related to amortization of the premium associated with our Weather Derivative, which we initially entered into during the second quarter of 2019.

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

Loss on debt modification and extinguishment

We recognized a loss on debt modification and extinguishment of nil and $7 million during 2020 and 2019, respectively. The amount during 2019 is associated with the write-off of unamortized discounts and deferred financing costs.

For additional information regarding our loss on debt modification and extinguishment, see note 9 to our consolidated financial statements.

Other expense, net

Our other expense, net, was not material during 2020 and 2019.

Income tax benefit (expense)

We recognized income tax benefit (expense) of $42 million and ($2 million) during 2020 and 2019, respectively.

The income tax benefit attributable to our loss before income taxes during 2020 differs from the expected income tax benefit of $29 million, primarily due to (i) the net favorable changes in our valuation allowance assessment, offset by (i) net unfavorable permanent differences including non-deductible acquisition costs and (ii) withholding taxes on cross border transactions.

The income tax expense attributable to to our loss before income taxes during 2019 differs from the expected income tax benefit of $2 million, primarily due to (i) the change in our valuation allowance adjustment and (ii) the tax effect of non-deductible acquisition costs.

For additional information regarding our income tax benefit (expense), see note 14 to our consolidated financial statements.

Net earnings (loss)

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

	Year ended December 31,	
	2020	2019
	in millions	
Operating income	$ 94.2	$ 101.4
Net non-operating expenses	$ (230.4)	$ (109.7)
Income tax benefit (expense)	$ 42.0	$ (2.3)
Net loss	$ (94.2)	$ (10.6)

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

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

Liquidity and Capital Resources

Sources and Uses of Cash

We had $79 million of cash and cash equivalents at December 31, 2020. In addition to cash and cash equivalents, the primary sources of our liquidity are cash provided by operations and borrowing availability under the LPR Revolving Credit Facility. For the details of the borrowing availability under the LPR Revolving Credit Facility, see note 9 to our consolidated financial statements. The aforementioned sources of liquidity may be supplemented in certain cases by contributions and/or loans from Liberty Latin America and its unrestricted subsidiaries.

Our liquidity is generally used to fund property and equipment additions, debt service requirements and income tax payments. From time to time, we may also require cash in connection with (i) the repayment of any outstanding debt, (ii) acquisitions and other investment opportunities, (iii) distributions or loans to Liberty Latin America or other equity owners and (iv) satisfaction of contingent liabilities. We continually evaluate different financing alternatives and market conditions and may decide to enter into new credit facilities, access debt capital markets or incur other indebtedness from time to time. No assurance can be given that any external funding would be available to us on favorable terms, or at all. For information regarding our commitments and contingencies, see note 17 to our consolidated financial statements.

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

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

Capitalization

For the year ended December 31, 2020, our consolidated net leverage ratio was 3.7x, as specified in, and calculated in accordance with our credit agreements.

Our ability to service or refinance our debt and to maintain compliance with the leverage covenants in our credit facilities is dependent primarily on our ability to maintain Adjusted OIBDA 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 Adjusted OIBDA were to decline, our ability to obtain additional debt could be limited. No assurance can be given that we would have sufficient sources of liquidity, or that any extra funding would be available on favorable terms, or at all, to fund any such required repayment. At December 31, 2020, we were in compliance with our debt covenants. We do not anticipate any instances of non-compliance with respect to our debt covenants that would have a material adverse impact on our liquidity during the next 12 months.

At December 31, 2020, the outstanding principal amount of our debt, together with our finance lease obligations, aggregated $2,301 million, including $2,292 million that is not due until 2026 or thereafter. For additional information concerning our debt, including our debt maturities, see note 9 to our consolidated financial statements.

The weighted average interest rate in effect at December 31, 2020 for all borrowings outstanding pursuant to each debt instrument, including any applicable margin, was 6.1%. The interest rate is based on stated rates and does not include the impact of derivative instruments, deferred financing costs, original issue premiums or discounts and commitment fees, all of which affect our overall cost of borrowing. The weighted average impact of the derivative instruments on our borrowing costs at December 31, 2020 was an increase of 86 basis points. Including the effects of derivative instruments, original issue premiums or discounts and commitment fees, but excluding the impact of financing costs, the weighted average interest rate on our indebtedness was 7.0% at December 31, 2020.

We believe that we have sufficient resources to repay or refinance the current portion of our debt and finance lease obligations and to fund our foreseeable liquidity requirements during the next 12 months. We may seek to refinance our debt prior to its maturity, and no assurance can be given that we will be able to complete this refinancing. In this regard, it is difficult to predict how political, economic and social conditions, sovereign debt concerns or any adverse regulatory developments will impact the credit markets we access and our future financial position. Our ability to access debt financing on favorable terms, or at all, could be adversely impacted by (i) the financial failure of any of our counterparties, which could (a) reduce amounts available under committed credit facilities and (b) adversely impact our ability to access cash deposited with any failed financial institution, and (ii) tightening of the credit markets. 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.

Consolidated Statements of Cash Flows

Summary. Our 2020 and 2019 consolidated statements of cash flows are summarized as follows:

	Year ended December 31, 2020	Year ended December 31, 2019	Change
	in millions		
Net cash provided by operating activities	$ 4.1	$ 140.1	$ (136.0)
Net cash used by investing activities	(1,975.2)	(83.5)	(1,891.7)
Net cash provided by financing activities	744.5	1,229.6	(485.1)
Net increase (decrease) in cash, cash equivalents and restricted cash	$ (1,226.6)	$ 1,286.2	$ (2,512.8)

Operating Activities. The decrease in net cash provided by our operating activities is primarily attributable to the net effect of (i) excluding insurance receipts, an increase in net cash used related to working capital as discussed below, (ii) higher cash payments for interest, (iii) an increase from our Adjusted OIBDA, (iv) a decrease in cash resulting from insurance as discussed below, and (v) an decrease in cash related to derivative instruments, as we received (paid) net amounts of ($15 million) and $10 million during 2020 and 2019, respectively.

The cash outflow from changes in operating assets set forth in our consolidated statement of cash flows for the year ended December 31, 2020 primarily relates to (i) $73 million of cash used for the purchase of prepaid roaming services in conjunction with the AT&T Acquisition and (ii) increases in trade receivables, note receivables and receivables from AT&T following the closing of AT&T Acquisition. The cash inflow from changes in operating liabilities as set forth in our consolidated statement of cash flows for the year ended December 31, 2020 primarily relates to increases in trade payables and other current liabilities following the closing of AT&T Acquisition. During 2019, $18 million of the cash received associated with the final insurance settlement for the Hurricanes was reflected as an operating cash inflow. For additional information relating to the purchase of prepaid roaming services and our insurance receipts, see notes 4 and 7, respectively, to our consolidated financial statements.

Investing Activities. Our cash used during 2020 includes (i) $1,886 million of cash paid related to the AT&T Acquisition and (ii) $89 million of cash paid related to capital expenditures. For additional information regarding the AT&T Acquisition, see note 4 to our consolidated financial statements. Our cash used during 2019 includes the net effect of (i) $76 million of cash paid related to capital expenditures, (ii) $16 million of cash paid related to the C&W Transfer and (iii) $9 million of cash received related to the recovery on damaged or destroyed property and equipment resulting from the Hurricanes. For additional information regarding the C&W Transfer, see note 15 to our consolidated financial statements. For additional information regarding the settlement of our insurance claims associated with the Hurricanes, see note 7 to our consolidated financial statements.

The capital expenditures that we report in our consolidated statements of cash flows, which includes cash paid for property and equipment and intangible assets acquired not part of an acquisition, do not include amounts that are financed under finance lease arrangements. Instead, these amounts are reflected as non-cash additions to our property and equipment when the underlying assets are delivered and as repayments of debt when the principal is repaid. In the following discussion, we refer to (i) our capital expenditures as reported in our consolidated statements of cash flows and (ii) our total property and equipment additions, which include our capital expenditures on an accrual basis and amounts financed under finance 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, 2020	Year ended December 31, 2019
	in millions	
Property and equipment additions	$ 97.3	$ 88.0
Acquisition of intangible assets	7.8	—
Changes in current liabilities related to capital expenditures	(15.9)	(12.1)
Capital expenditures	$ 89.2	$ 75.9

The increase in property and equipment additions during 2020, as compared to 2019, is primarily attributable to the net effect of (i) a $20 million increase in additions in our mobile operations following the AT&T Acquisition, mostly due to baseline-related assets, (ii) lower additions related to (a) the expansion and upgrade of our networks and other capital initiatives and (b) support-related equipment and (iii) an increase in additions related to CPE. During 2020 and 2019, our property and equipment additions represented 15.6% and 21.4% of our revenue, respectively. Our property and equipment additions as a percentage of revenue decreased primarily due to higher revenue following the AT&T Acquisition.

We expect the percentage of revenue represented by our aggregate 2021 property and equipment additions to be between 14% and 16%. The actual amount of the 2021 consolidated property and equipment additions may vary from expected amounts for a variety of reasons, including (i) potential impacts from COVID-19 (ii) changes in (a) the competitive or regulatory environment, (b) business plans and (c) our expected future operating results and (iii) the availability of sufficient capital. Accordingly, no assurance can be given that our actual property and equipment additions will not vary materially from our expectations.

Financing Activities. During 2020, we generated $745 million of net cash from financing activities primarily due to the net effect of (i) $602 million of cash contributions, as further described in note 15 to our consolidated financial statements, (ii) $90 million of net borrowings of third-party debt, as further described in note 9 to our consolidated financial statements, which was slightly offset by $20 million related to payments of financing costs, and (iii) $70 million of borrowings of related-party debt, as further described in note 16 to our consolidated financial statements.

During 2019, we received $1,230 million in net cash from financing activities, due to $1,248 million of net borrowings of third-party debt, as further described in note 9 to our consolidated financial statements, which was slightly offset by $18 million related to payments of financing costs.

Contractual Commitments

The following table sets forth our commitments as of December 31, 2020:

	Payments due during: 2021	2022	2023	2024	2025	Thereafter	Total
				in millions			
Debt (excluding interest)	$ —	$ —	$ —	$ —	$ —	$ 2,290.0	$ 2,290.0
Finance leases (excluding interest)	0.1	2.1	2.1	2.1	2.1	2.0	10.5
Operating leases	40.1	32.2	27.3	24.2	20.9	90.1	234.8
Network and connectivity commitments (a)	0.6	0.6	0.6	0.6	0.6	1.2	4.2
Total	$ 40.8	$ 34.9	$ 30.0	$ 26.9	$ 23.6	$ 2,383.3	$ 2,539.5
Projected cash interest payments on third-party debt and finance lease obligations (b)	$ 138.5	$ 138.5	$ 138.5	$ 138.5	$ 138.5	$ 217.0	$ 909.5

(a) Amounts include domestic network usage agreements with C&W.

(b) Amounts are based on interest rates, interest payment dates, commitment fees and contractual maturities in effect as of December 31, 2020. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. In addition, the amounts presented do not include the impact of our derivative contracts.

For information concerning our debt and finance lease obligations, operating leases and commitments see notes 9, 10 and 17, respectively, to our consolidated financial statements.

In addition to the commitments set forth in the table above, we have commitments under derivative instruments, pursuant to which we expect to make payments in future periods. For information regarding projected cash flows associated with our derivative instruments, see *Projected Cash Flows Associated with Derivative Instruments* below. For information regarding our derivative instruments, including the net cash paid in connection with these instruments during 2020, 2019 and 2018, see note 5 to our consolidated financial statements.

Projected Cash Flows Associated with Derivative Instruments

The following table provides information regarding the projected net cash flows associated with our derivative instruments. The amounts presented below are based on interest rates that were in effect as of December 31, 2020. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. For additional information regarding our derivative instruments, including our counterparty credit risk, see note 5 to our consolidated financial statements.

	Payments due during:						
	2021	**2022**	**2023**	**2024**	**2025**	**Thereafter**	**Total**
				in millions			
Interest-related (a)	$ 28.2	$ 19.7	$ 19.7	$ 19.7	$ 19.7	$ 15.3	$ 122.3

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

Independent Auditors' Report

The Board of Directors
Liberty Communications PR Holding LP:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Liberty Communications PR Holding LP and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, changes in partners' capital, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 Communications PR Holding LP and its subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2020, in accordance with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Denver, Colorado
March 17, 2021

LIBERTY COMMUNICATIONS PR HOLDING LP

CONSOLIDATED BALANCE SHEETS

	December 31, 2020	December 31, 2019
	in millions	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 79.4	$ 50.1
Trade receivables, net of allowances of $9.9 million and $10.7 million, respectively	82.5	18.3
Current notes receivable, net of an allowance of $8.3 million at December 31, 2020	77.5	—
Receivable from AT&T	57.1	—
Prepaid expenses	16.8	6.4
Derivative instruments	—	6.3
Inventories	19.8	—
Current income tax receivable	17.3	13.2
Other current assets, net	58.5	4.5
Total current assets	408.9	98.8
Property and equipment, net	1,236.1	524.2
Goodwill	629.9	277.7
Intangible assets not subject to amortization	1,435.8	541.3
Customer relationships, net	113.3	50.2
Restricted cash	—	1,255.9
Operating lease right-of-use assets	192.9	4.1
Other assets, net	166.8	5.7
Total assets	$ 4,183.7	$ 2,757.9
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable	$ 95.8	$ 22.1
Deferred revenue	58.1	9.6
Accrued capital expenditures	46.9	29.0
Third-party accrued interest	22.0	18.1
Related-party accrued liabilities	16.3	7.7
Derivative instruments	28.9	11.6
Current portion of operating lease obligations	31.6	0.7
Current portion of third-party debt and finance lease obligations	0.1	—
Other accrued and current liabilities	76.7	16.6
Total current liabilities	376.4	115.4
Long-term debt and finance lease obligations	2,261.3	2,173.0
Operating lease obligations	161.3	3.4
Deferred tax liabilities	386.3	137.2
Other long-term liabilities	133.0	41.4
Total liabilities	3,318.3	2,470.4
Commitments and contingencies		
Partners' capital	865.4	287.5
Total liabilities and partners' capital	$ 4,183.7	$ 2,757.9

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

LIBERTY COMMUNICATIONS PR HOLDING LP

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31,		
	2020	2019	2018
		in millions	
Revenue	$ 624.1	$ 412.1	$ 335.6
Operating costs and expenses (exclusive of depreciation and amortization, shown separately below):			
Programming and other direct costs of services	164.3	92.8	79.4
Other operating costs and expenses	188.0	118.3	110.1
Business interruption loss recovery	—	—	(48.5)
Related-party fees and allocations	15.2	9.5	4.6
Depreciation and amortization	105.5	85.4	86.0
Impairment, restructuring and other operating items, net	56.9	4.7	(23.1)
	529.9	310.7	208.5
Operating income	94.2	101.4	127.1
Non-operating income (expense):			
Interest expense	(149.3)	(78.0)	(62.2)
Interest income	4.5	3.4	—
Realized and unrealized gains (losses) on derivative instruments, net	(83.6)	(27.9)	4.0
Loss on debt modification and extinguishment	—	(6.7)	—
Other expense, net	(2.0)	(0.5)	—
	(230.4)	(109.7)	(58.2)
Earnings (loss) before income taxes	(136.2)	(8.3)	68.9
Income tax benefit (expense)	42.0	(2.3)	(19.7)
Net earnings (loss)	$ (94.2)	$ (10.6)	$ 49.2

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

LIBERTY COMMUNICATIONS PR HOLDING LP

CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL

	Partners' capital
	in millions
Balance at January 1, 2018	$ 170.4
Accounting change (note 2)	(0.1)
Balance at January 1, 2018, as adjusted for accounting change	170.3
Net earnings	49.2
Cash contributions	85.0
Balance at December 31, 2018	304.5
Net loss	(10.6)
Excess of consideration paid over carrying value for certain business-to-business (**B2B**) operations transferred from entities under common control	(6.4)
Balance at December 31, 2019	287.5
Accounting change (note 2)	0.3
Balance at January 1, 2020, as adjusted for accounting change	287.8
Net loss	(94.2)
Cash and non-cash equity contributions	671.8
Balance at December 31, 2020	$ 865.4

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

LIBERTY COMMUNICATIONS PR HOLDING LP

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2020	2019	2018
		in millions	
Cash flows from operating activities:			
Net earnings (loss)	$ (94.2)	$ (10.6)	$ 49.2
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization	105.5	85.4	86.0
Impairment	1.5	—	0.4
Amortization of debt financing costs and discounts	5.4	3.0	2.5
Realized and unrealized losses (gains) on derivative instruments, net	83.6	27.9	(4.0)
Loss on debt modification and extinguishment	—	6.7	—
Deferred income tax expense (benefit)	(52.1)	(3.2)	14.1
Insurance receipts	—	18.4	50.1
Changes in operating assets and liabilities:			
Receivables and other operating assets	(181.1)	4.1	(31.9)
Payables and accruals	135.5	8.4	(50.8)
Net cash provided by operating activities	4.1	140.1	115.6
Cash flows from investing activities:			
Capital expenditures	(89.2)	(75.9)	(197.5)
Cash paid in connection with the AT&T Acquisition	(1,886.0)	—	—
Consideration paid in connection with the C&W Transfer	—	(16.1)	—
Recovery on damaged or destroyed property and equipment	—	8.5	15.7
Net cash used by investing activities	(1,975.2)	(83.5)	(181.8)
Cash flows from financing activities:			
Cash contributions	601.8	—	85.0
Borrowings of third-party debt	152.5	1,267.5	—
Repayments of third-party debt and finance lease obligations	(62.5)	(20.0)	(40.0)
Borrowings of related-party debt	70.0	—	—
Payment of financing costs	(19.6)	(17.9)	—
Other financing activities	2.3	—	—
Net cash provided by financing activities	744.5	1,229.6	45.0
Net increase (decrease) in cash, cash equivalents and restricted cash	(1,226.6)	1,286.2	(21.2)
Cash, cash equivalents and restricted cash:			
Beginning of year	1,306.0	19.8	41.0
End of year	$ 79.4	$ 1,306.0	$ 19.8
Cash paid for interest - third-party	$ 140.0	$ 70.0	$ 57.5
Cash paid for taxes	$ 7.0	$ 4.7	$ —

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

(1) Basis of Presentation

Organization

Liberty Communications PR Holding LP (**Liberty PR**), formerly known as Leo Cable LP, holds a 100% interest in LCPR Cayman Holding Inc. and a 100% interest in LCPR Ventures LLC (**LCPR Ventures**). We provide fixed and mobile telecommunications services to residential and business customers in Puerto Rico and the United States (**U.S.**) Virgin Islands through (i) Liberty Communications of Puerto Rico LLC (**LCPR**), formerly known as Liberty Cablevision of Puerto Rico LLC, and (ii) as of October 31, 2020 and as further described in note 4, Liberty Mobile Inc. (**Liberty Mobile**) and its subsidiaries. Prior to October 17, 2018, Liberty Latin America Ltd. (**Liberty Latin America**) indirectly owned 60% of Liberty PR with the remaining interest owned by Searchlight Capital Partners L.P. (collectively, **Searchlight**). On October 17, 2018, a wholly-owned subsidiary of Liberty Latin America acquired Searchlight's 40% interest in Liberty PR, resulting in our company being an indirect wholly-owned subsidiary of Liberty Latin America.

In these notes, the terms "**we**," "**our**," "**our company**" and "**us**" may refer, as the context requires, to Liberty PR or collectively to Liberty PR and its subsidiaries.

Basis of Presentation

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

These consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through March 17, 2021, the date of issuance.

(2) Accounting Changes and Recent Accounting Pronouncements

Accounting Changes

ASU 2019-12

In December 2019, the Financial Accounting Standards Board (**FASB**) issued Accounting Standards Update (**ASU**) No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* (**ASU 2019-12**), which (i) simplifies the accounting for income taxes by removing certain exceptions for recognizing deferred taxes for investments, performing intraperiod allocations and calculating income taxes in interim periods, and (ii) reduces the complexity in certain areas of existing tax guidance, including the recognition of deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. We early adopted ASU 2019-12 effective December 31, 2020 and it did not have a material impact on our consolidated financial statements.

ASU 2018-15

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software—Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (***ASU 2018-15***)*. ASU 2018-15 provides additional guidance on ASU No. 2015-05, *Intangibles—Goodwill and Other—Internal-Use Software—Customer's Accounting for Fees Paid in a Cloud Computing Arrangement,* which was issued to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement (hosting arrangement) by providing guidance for determining when the arrangement includes a software license. ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The guidance (i) provides criteria for determining which implementation costs to capitalize as an asset related to the service contract and which costs to expense, (ii) requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement and (iii) clarifies the presentation requirements for reporting such costs in the entity's financial statements. We adopted ASU 2018-15 effective January 1, 2020 on a prospective basis for all implementation costs incurred after the date of adoption and it did not have a material impact on our consolidated financial statements.

ASU 2016-13

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses—Measurement of Credit Losses on Financial Instruments (***ASU 2016-13**), as amended by (i) ASU No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, which amended certain effective dates, and (ii) ASU No. 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, which clarifies guidance around how to report expected recoveries. ASU 2016-13 replaces the incurred loss impairment methodology for recognizing credit losses with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. We are required to use a forward-looking expected credit loss model for accounts receivables, loans and other financial instruments. We adopted ASU 2016-13 effective January 1, 2020 using a modified retrospective approach through a cumulative-effect adjustment to the opening balance of our partners' capital account to align our credit loss methodology with the new standard. The comparative information has not been restated and continues to be reported under the accounting standards in effect for that period.

Under the new model, we segment our receivables, unbilled revenue and contract assets based on days past due and record an allowance for current expected credit losses using average rates applied against each account's applicable aggregate balance for each aging bucket. We establish the average rates based on consideration of the actual credit loss experience over the prior 12-month period, recent collection trends, current economic conditions and reasonable expectations of future payment delinquency.

The cumulative effect of the changes to our consolidated balance sheet as of January 1, 2020 was not material.

ASU 2016-02

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (**ASU 2016-02**), as amended by ASU No. 2018-11, *Targeted Improvements*, which provides an option to use one of two modified retrospective approaches in the adoption of ASU 2016-02. ASU 2016-02, for most leases, results in lessees recognizing right-of-use assets and lease liabilities on the balance sheet and additional disclosures. We adopted ASU 2016-02 effective January 1, 2019 using the effective date transition method. A number of optional practical expedients were applied in transition, as further described below.

The main impact of the adoption of this standard was the recognition of right-of-use assets and lease liabilities in our consolidated balance sheet as of January 1, 2019 for those leases classified as operating leases under ASU 2016-02. We did not recognize right-of-use assets or lease liabilities for leases with a term of 12 months or less, as permitted by the short-term lease practical expedient in the standard. In transition, we applied the practical expedients that permit us not to reassess (i) whether expired or existing contracts are or contain a lease under the new standard, (ii) the lease classification for expired or existing leases, (iii) whether previously-capitalized initial direct costs would qualify for capitalization under the new standard and (iv) whether existing or expired land easements that were not previously accounted for as leases are or contain a lease. We also applied the practical expedient that permits us to account for customer service revenue contracts that include both non-lease and lease components as a single component in all instances where the non-lease component is the predominant component of the arrangement and the other applicable criteria are met. In addition, we did not use hindsight during the transition.

For information regarding our accounting policies for leases following the adoption of ASU 2016-02, see note 3.

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. We adopted ASU 2014-09 effective January 1, 2018 by recording the cumulative effect to the opening balance of our partners' capital account. We applied the new standard to contracts that were not complete as of January 1, 2018. The primary impact of ASU 2014-09 relates to the revenue recognition policy surrounding our accounting for certain installation and other upfront fees charged to our customers.

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

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

The impact of adopting ASU 2014-09 did not have a material impact on our consolidated financial statements for the year ended December 31, 2018.

For information regarding our accounting policies for revenue following the adoption of ASU 2014-09 and our contract assets and deferred revenue balance, see note 3. For our disaggregated revenue by product, see note 18.

Recent Accounting Pronouncements

General

We expect to adopt the following accounting pronouncement in conjunction with Liberty Latin America.

ASU 2020-04 and ASU 2021-01

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* (**ASU 2020-04**), which provides optional guidance for a limited time to ease the potential accounting burden associated with transitioning away from reference rates, such as the London Inter-Bank Offered Rate (**LIBOR**), which regulators in the United Kingdom have announced will be phased out by the end of 2021. In January 2021, the FASB issued ASU No. 2021-01, *Reference Rate Reform (Topic 848)* (**ASU 2021-01**), which clarifies certain optional expedients and exceptions in Accounting Standards Codification (**ASC**) 848. The expedients and exceptions provided by ASU 2020-04 and ASU 2021-01 are for the application of U.S. GAAP to contracts, hedging relationships and other transactions affected by the rate reform, and will not be available after December 31, 2022, other than for certain hedging relationships entered into before December 31, 2022. We do not currently expect that the phase out of LIBOR will have a material impact on our consolidated financial statements.

(3) Summary of Significant Accounting Policies

Estimates

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

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. During 2020, we changed the presentation of certain operating costs and expenses in our consolidated statements of operations in order to better align with management’s approach to monitoring and evaluating such costs. Specifically, we have combined the costs previously reported in the consolidated statement of operations’ captions “other operating” and “selling, general and administrative” into one line, which is now referred to as “other operating costs and expenses.” In conjunction with this change, we have provided additional disclosure of the nature of other operating costs and expenses by function, as set forth in note 13. This change in presentation did not have any impact on operating income or loss, net loss or any of our key performance metrics. In addition, we have provided additional disclosure of the nature of our programming and other direct costs of services, as set forth in note 12.

Principles of Consolidation

The accompanying consolidated financial statements include our accounts and the accounts of all voting interest entities where we exercise a controlling financial interest through the ownership of a direct or indirect controlling voting interest and variable interest entities for which our company is the primary beneficiary. Intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents and Restricted Cash

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

Restricted cash consists of cash held in restricted accounts, including cash held as collateral for acquisitions and debt, as applicable. Cash that is restricted to a specific use is classified as current or long-term based on, among other things, the expected use and timing of disbursement of the restricted cash. At December 31, 2020 and 2019, our long-term restricted cash balance was nil and $1,256 million, respectively. For additional information regarding restricted cash that was used during 2020 to partially fund the AT&T Acquisition (as defined and described in note 4), see note 9.

Cash Flow Statement

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

Receivables

We have trade and note receivables that are each reported net of an allowance for credit losses.

Our notes receivable, which we maintain following the closing of the AT&T Acquisition, consist of equipment installment-plan (**EIP**) receivables due from customers under contracts over a period of up to 30 months. The long-term portion of our notes receivable, net of allowance, is incurred in other assets, net in our consolidated balance sheets.

The allowances on each of our trade and notes receivable are established using our best estimates of current expected credit losses based upon, among other things, actual credit loss experience over the prior 12-month period, recent collection trends, prevailing and anticipated economic conditions and specific customer credit risk. Receivables outstanding greater than 30 days are considered past due and we generally write-off receivables after they become past due for 365 days, with the exception of amounts due from certain governments.

Changes in our trade receivables allowance for credit losses are set forth below:

	Year ended December 31,		
	2020	2019	2018
	in millions		
Beginning balance	$ 10.7	$ 10.0	$ 10.8
Provision for expected losses	2.7	6.4	5.3
Write-offs	(7.8)	(5.7)	(6.1)
Additions upon acquisition	3.8	—	—
Other	0.5	—	—
Ending balance	$ 9.9	$ 10.7	$ 10.0

Change in our notes receivable allowance for credit losses for the year ended December 31, 2020 are set forth below (in millions):

Beginning balance	$	—
Additions upon acquisition		14.9
Provision for expected losses		1.3
Ending balance	$	16.2

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

Receivable from AT&T

Our receivable from AT&T primarily represent amounts collected by AT&T, as defined and described in note 4, on our behalf related to trade and note receivables that will be paid or disbursed to us in the near term.

Financial Instruments

Due to the short maturities of cash and cash equivalents, trade and other receivables, other current assets, accounts payable, accrued liabilities and other accrued and current liabilities, their respective carrying values approximate their respective fair values. For information concerning the fair values of our derivative and debt instruments, see notes 5 and 9, respectively. For information regarding how we arrive at certain of our fair value measurements, see note 6.

Derivative Instruments

Derivative Instruments Recorded at Fair Value

Our derivative instruments, excluding our weather derivative contract (**Weather Derivative**), as discussed below, are recorded on our consolidated balance sheets at fair value. As we do not apply hedge accounting to 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, as follows:

- **Interest rate derivative contracts:** The net cash paid or received related to current interest is classified as an operating activity.
- **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.

Weather Derivative

Our weather derivative provides us with insurance coverage for certain weather-related events and is not accounted for at fair value. The premium paid associated with the Weather Derivative is recorded in other current assets, net in our consolidated balance sheets, and the amortization of the premium is included in realized and unrealized gains or losses on derivative instruments, net in our consolidated statements of operations. The cash paid associated with the premium is classified as an operating activity in our consolidated statements of cash flows. In the event of a payout under our Weather Derivative, the cash received would be classified as an operating activity in our consolidated statements of cash flows.

For information regarding our derivative instruments, see note 5.

Inventories

Inventories consist principally of mobile devices and accessories and are valued at the lower of cost or net realizable value. We maintain inventory valuation reserves for obsolete and slow-moving inventory, based on analysis of recent historical sales activity and current retail, stand-alone selling prices. We record sales of inventories under the average cost method.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. We capitalize costs associated with the construction of new cable and mobile transmission and distribution facilities and the installation of new cable services. The nature and amount of labor and other costs to be capitalized with respect to construction and installation activities involves significant judgment. In addition to direct external and internal labor and materials, we also capitalize other costs directly attributable to our construction and installation activities, including dispatch costs, quality-control costs, vehicle-related costs and certain warehouse-related costs. The capitalization of these costs is based on time sheets, time studies, standard costs, call tracking systems and other verifiable means that directly link the costs incurred with the applicable capitalizable activity. We continuously monitor the appropriateness of our capitalization policies and update the policies when necessary to respond to changes in facts and circumstances, such as the development of new products and services and changes in the manner that installations or construction activities are performed. Installation activities that are capitalized include (i) the initial connection (or drop) from our cable system to a customer location, (ii) the replacement of a drop and (iii) the installation of equipment for additional services, such as digital cable, telephone or broadband internet service. The costs of other customer-facing activities, such as reconnecting and disconnecting customer locations and repairing or maintaining drops, are expensed as incurred.

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

Depreciation is computed using the straight-line method over the estimated useful life of the underlying asset. Equipment under finance leases is amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset and is included in depreciation and amortization in our consolidated statements of operations. Useful lives used to depreciate our property and equipment are assessed periodically and are adjusted when warranted. The useful lives of cable and mobile 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 8.

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

We recognize a liability for asset retirement obligations in the period in which it is incurred if sufficient information is available to make a reasonable estimate of fair values. Asset retirement obligations primarily relate to assets placed on leased wireless towers and other premises. Asset retirement obligations of $1 million and nil at December 31, 2020 and 2019, respectively, are included in other long-term liabilities in our consolidated balance sheets.

Intangible Assets

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

Goodwill and other intangible assets with indefinite useful lives 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.

We do not amortize our cable television franchise rights or spectrum licenses as these assets have indefinite lives.

The spectrum licenses provide us with the exclusive right to utilize a certain radio frequency spectrum to provide wireless communications services. While spectrum licenses are issued for only a fixed time (generally, ten years), renewals of spectrum licenses occur routinely and at nominal cost. Moreover, we believe there are currently no significant legal, regulatory, contractual, competitive, economic or other factors limiting the useful lives of our spectrum licenses, and therefore we treat the spectrum licenses as indefinite-lived intangible assets. We believe we will be able to meet all requirements necessary to secure renewal of our spectrum licenses.

For additional information regarding the useful lives of our intangible assets, see note 8.

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

We evaluate goodwill and other indefinite-lived intangible assets (primarily cable television franchise rights and spectrum licenses) for impairment at least annually on October 1 and whenever facts and circumstances indicate that the fair value of a reporting unit or an indefinite-lived intangible asset may be less than its carrying value. For impairment evaluations with respect to both goodwill and other indefinite-lived intangibles, we first make a qualitative assessment to determine if the goodwill or other indefinite-lived intangible may be impaired. In the case of goodwill, if it is more-likely-than-not that a reporting unit's fair value is less than its carrying value, we then compare the fair value of the reporting unit to its respective carrying amount. A reporting unit is an operating segment or one level below an operating segment (referred to as a "component"). Prior to the closing of the AT&T Acquisition (as defined in note 4) on October 31, 2020, our operating segment was deemed to be a reporting unit as it comprised a single component. Goodwill impairment is recorded as the excess of a reporting unit's carrying value over its fair value and is charged to operations as an impairment loss. With respect to other indefinite-lived intangible assets, if it is more-likely-than-not that the fair value of an indefinite-lived intangible asset is less than its carrying value, we then estimate their fair value and any excess of the carrying value over the fair value is also charged to operations as an impairment loss. For additional information regarding the fair value measurements of our property and equipment and intangible assets, see note 6. For additional information regarding impairments, see note 8.

Contract Assets

When we transfer goods or services to a customer but do not have an unconditional right to payment, we record a contract asset. Contract assets are reclassified to trade receivables, net, in our consolidated balance sheet at the point in time we have the unconditional right to payment. Our contract assets were $22 million and nil as of December 31, 2020 and 2019, respectively. The current and long-term portion of contract assets are included in other current assets, net and other assets, net, respectively, in our consolidated balance sheets.

Deferred Contract Costs

Incremental costs to obtain a contract with a customer, such as incremental sales commissions, are recognized as an asset and amortized to other operating costs and expenses over the applicable period benefited, which is the longer of the contract life or the economic life of the commission. If, however, the amortization period is one year or less, we expense such costs in the period incurred. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained are recognized as an expense when incurred. Our deferred contract costs were $5 million and $1 million as of December 31, 2020 and 2019, respectively. The current and long-term portion of deferred contract costs are included in other current assets, net and other assets, net, respectively, in our consolidated balance sheets.

Deferred Revenue

We record deferred revenue when we have received payment prior to transferring goods or services to a customer. Deferred revenue primarily relates to (i) advanced payments on fixed subscription services, mobile airtime services and long-term capacity contracts and (ii) deferred installation and other upfront fees. Our aggregate current and long-term deferred revenue as of December 31, 2020 and 2019 was $61 million and $10 million, respectively. Long-term deferred revenue is included in other long-term liabilities in our consolidated balance sheets.

Operating Leases

Our operating leases primarily consist of (i) property leases for mobile tower locations that generally have initial terms of five to ten years with one or more renewal options and (ii) lease commitments for (a) retail stores, offices and facilities, (b) other network assets and (c) other equipment. It is expected that in the normal course of business, operating leases that expire generally will be renewed or replaced by similar leases. For additional information regarding our leases, see note 10.

We classify leases with a term of greater than 12 months where substantially all risks and rewards incidental to ownership are retained by the third-party lessors as operating leases. We record a right-of-use asset and an operating lease liability at inception of the lease at the present value of the lease payments plus certain other payments, including variable lease payments and amounts probable of being owed by us under residual value guarantees. Payments made under operating leases, net of any incentives received from the lessors, are recognized to expense on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging operating leases are recognized to expense when incurred. Contingent rental payments are recognized to expense when incurred.

We use a credit-adjusted discount rate to measure our operating lease liabilities. We derive the discount rate starting with a risk free rate, generally the U.S.Treasury Bill rate. To determine credit risk, we create an industry benchmark credit default swap (**CDS**) curve from an observable high-yield debt index using comparable telecommunication companies as a proxy. We then determine the maximum curve shift against this CDS curve derived from our own tradable debt, and make adjustments to correct for the collateralized interest rate spread by comparing unsecured debt to asset-backed securities (secured debt) trades, which is based on the spread between the BB- and B+ industrial curves. We determine the discount factor from this adjusted curve.

Income Taxes

Effective with our formation on June 15, 2012, we elected to be treated as a pass-through entity for U.S. federal and Puerto Rico income tax purposes. Accordingly, our taxable income or loss, which may vary substantially from the net earnings or loss reported in our consolidated statements of operations, is included in the income tax returns of our partners. We record income taxes in the accompanying consolidated financials to reflect the tax on income earned by our taxable consolidated subsidiaries for U.S. and Puerto Rico purposes.

Income taxes are accounted for under the asset and liability method. We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts and income tax basis of assets and liabilities and the expected benefits of utilizing net operating loss and tax credit carryforwards, using enacted tax rates in effect for each taxing jurisdiction in which we operate for the year in which those temporary differences are expected to be recovered or settled. We recognize the financial statement effects of a tax position when it is more-likely-than-not, based on technical merits, that the position will be sustained upon examination. Net deferred tax assets are then reduced by a valuation allowance if we believe it is more-likely-than-not such net deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. Interest and penalties related to income tax liabilities are included in income tax benefit or expense.

Revenue Recognition

We categorize revenue into two major categories: (i) residential revenue, which includes revenue from fixed and mobile services provided to residential customers, and (ii) B2B revenue, which includes B2B service and subsea network revenue. For additional information regarding our revenue by major category, see note 18. Our revenue recognition policies are as follows.

Residential Fixed and B2B Service Revenue – Fixed Networks. Most of our fixed residential contracts are not enforceable or do not contain substantive early termination penalties. Accordingly, revenue relating to these customers is recognized on a basis consistent with customers that are not subject to contracts. We account for customer service revenue contracts that include both non-lease and lease components as a single component in all instances where the non-lease component is the predominant component of the arrangement and the other applicable criteria are met. We recognize revenue from video, broadband internet and fixed-line telephony services over our fixed networks to customers in the period the related residential fixed or B2B services are provided. Installation or other upfront fees related to services provided over our fixed networks are generally deferred and recognized as subscription revenue over the contractual period, or longer if the upfront fee results in a material renewal right. We defer upfront installation and certain nonrecurring fees received on B2B contracts where we maintain ownership of the installed equipment. The deferred fees are amortized into revenue on a straight-line basis over the term of the arrangement or the expected period of performance.

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

Mobile Revenue – General. Our residential mobile contracts are enforceable and frequently contain substantive early termination penalties. Consideration from mobile contracts is allocated to airtime services and handset sales based on the relative standalone prices of each performance obligation.

Mobile Revenue – Airtime Services. We recognize revenue from mobile services in the period the related services are provided. Payments received from prepay customers are recorded as deferred revenue prior to the commencement of services and are recognized as revenue as the services are rendered or usage rights expire.

Mobile Revenue – Handset Revenue. Arrangement consideration allocated to handsets is recognized as revenue when the goods have been transferred to the customer.

Mobile Revenue – Handset Insurance Revenue. We recognize revenue associated with handset insurance on a straight-line basis over the coverage period.

Government Funding Revenue. From time to time, we received funds from the Federal Communications Commission (**FCC**) related to hurricane restoration efforts. The FCC does not meet the definition of a "customer," accordingly, we recognized the funds granted from the FCC as other revenue in the period in which we are entitled to receive the funds.

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

AT&T. On October 9, 2019, we and Liberty Latin America entered into a stock purchase agreement (the **Acquisition Agreement**) with certain subsidiaries of AT&T Inc. (**AT&T**) to acquire AT&T's wireless and wireline operations in Puerto Rico and the U.S. Virgin Islands (the **AT&T Acquisition**) in an all-cash transaction. Pursuant to the Acquisition Agreement, we agreed to acquire directly or indirectly, all of the outstanding shares of AT&T Mobility Puerto Rico Inc., AT&T Mobility Virgin Islands Inc. and Beach Holding Corporation, collectively the "**AT&T Acquired Entities**," which are also referred to as Liberty Mobile and its subsidiaries in note 1. The AT&T Acquisition closed on October 31, 2020. The operations acquired in the AT&T Acquisition provide consumer mobile and B2B services in Puerto Rico and the U.S. Virgin Islands. The AT&T Acquisition was valued at an enterprise value of $1,950 million on a cash- and debt-free basis, subject to certain adjustments. We financed this acquisition, including related fees and expenses, through a combination of net proceeds from the 2027 LPR Senior Secured Notes, the 2027 LPR Senior Secured Notes Add-on, the 2026 SPV Credit Facility and an equity contribution from Liberty Latin America's available liquidity. For further information about our debt and available liquidity, see note 9.

As a regulatory condition to close the AT&T Acquisition, we were required by the Department of Justice (the **DOJ**) to divest certain B2B operations that are a part of our existing operations in Puerto Rico. To meet the conditions of the DOJ, we entered into an agreement during the fourth quarter of 2020 to divest those B2B operations in Puerto Rico for a stated purchase price of $22 million. The disposal of this B2B business closed in early January 2021. The net assets of the B2B business sold of $11 million are classified as held for sale and included in other current assets, net in our consolidated balance sheet.

AT&T will provide ongoing support to the AT&T Acquired Entities under a transition services agreement (the **TSA**) for a period up to 36 months following the closing of the AT&T Acquisition. Services under the TSA include, but are not limited to, (i) network operations, (ii) customer service, (iii) finance and accounting, (iv) information technology, (v) sales and marketing and (vi) content-related services. We may terminate any services under the TSA upon sixty business days' notice to AT&T in accordance with the terms and conditions of the TSA.

The following table sets forth a reconciliation of the stated purchase price included in the Acquisition Agreement to the "**Accounting Purchase Price**" (in millions):

Stated Acquisition Agreement purchase price	$ 1,950.0
Less: Purchase price allocated to purchase of prepaid roaming services (a)	(73.3)
Working capital and other purchase price adjustments:	
Preliminary closing adjustments (b)	(51.7)
Additional working capital consideration (c)	61.0
Net cash paid for the AT&T Acquisition (d)	1,886.0
Contingent purchase price consideration (e)	44.8
Accounting Purchase Price	$ 1,930.8

(a) Represents the portion of the stated Acquisition Agreement purchase price that has been allocated to the purchase of prepaid roaming services. In connection with the Acquisition Agreement, AT&T agreed to give us a $75 million credit against certain roaming services that AT&T provides to the AT&T Acquired Entities for a seven-year period following the closing of the AT&T Acquisition. If the credits are not used for roaming services in that time period, any remaining credit may be used to acquire certain other services from AT&T thereafter. For accounting purposes, we have bifurcated the discounted value of these services from the stated purchase consideration, of which $11 million and $62 million are included in prepaid expenses and other assets, net, respectively, in our December 31, 2020 consolidated balance sheet. The total amount allocated to the purchase of prepaid roaming, $73 million, has been included in net cash provided by operating activities in our consolidated statement of cash flows.

(b) Represents preliminary closing adjustments to the purchase price pursuant to the terms of the Acquisition Agreement for (i) closing working capital balances, (ii) outstanding indebtedness and (iii) shortfalls in equipment subsidies made by AT&T prior to the closing of the AT&T Acquisition.

(c) Represents cash paid subsequent to the closing of the AT&T Acquisition related to certain liabilities of the AT&T Acquired Entities that were not assumed by us under the terms of the Acquisition Agreement.

(d) The net cash paid for the AT&T Acquisition is comprised of (i) the AT&T Acquisition Restricted Cash, as defined and described in note 9, which comprised $1,353 million and was released upon consummation of the AT&T Acquisition, and (ii) $533 million of cash and cash equivalents that was made available through an equity contribution from Liberty Latin America.

(e) Prior to the closing of the AT&T Acquisition, AT&T made prepayments to the tax authorities of Puerto Rico and the U.S. Virgin Islands. We expect that we will utilize these prepayments, which are reflected in income tax receivable on the consolidated balance sheet, against our future income tax liabilities. Pursuant to the Acquisition Agreement, if we utilize such prepayments to reduce our future income tax liabilities, we are required to pay AT&T additional purchase consideration. The fair value of this contingent purchase consideration has been included in other accrued and current liabilities in our consolidated balance sheet.

We have accounted for the AT&T Acquisition as a business combination using the acquisition method of accounting, whereby the Accounting Purchase Price was allocated to the acquired identifiable net assets of the AT&T Acquired Entities based on assessments of their respective fair values, and the excess of the Accounting Purchase Price over the fair values of these identifiable net assets was allocated to goodwill. The purchase price allocation to the assets acquired and liabilities assumed, including the residual amount allocated to goodwill, is based on preliminary information. This preliminary information is subject to change as we obtain additional facts, primarily related to the acquired property and equipment, intangible assets, leases and income taxes. The information available to us to allocate consideration to acquired property and equipment and intangible assets is impacted as follows:

- **Property and equipment:** the proximity of the acquisition date to our fiscal year-end date of December 31, 2020 and contractual restrictions set forth in the terms of the Acquisition Agreement that limit our ability to access certain historical cost information.

- **Spectrum intangible assets:** the proximity of the acquisition date to our fiscal year-end date of December 31, 2020, which has limited our ability to obtain all necessary information regarding the assets acquired, resulting in the on-going analysis of market data to establish an estimate.

As a result of these factors, we expect the valuation of property and equipment and the spectrum intangible assets, which are each currently based upon the historical values of the AT&T Acquired Entities, will require the following:

- **Property and equipment:** the use of an indirect cost approach, which utilizes trends based on historical cost information, supplemented with a market and direct replacement cost method for certain assets.

- **Spectrum intangible assets:** the anticipated use of either an adjusted "market" approach, which requires the calibration of observable market inputs to reflect the fair value of the assets acquired, or a combination of an adjusted market-based approach with an income-based approach, which requires a wide range of assumptions and inputs, including forecasting costs associated with building a complementary asset base.

Additionally, the valuation of the customer relationship intangible assets, which is currently based upon a preliminary multi-period excess earnings valuation method, will require updates to assumptions and inputs used, including the determination of contributory asset charges dependent on the valuation of the property and equipment and spectrum intangible assets. For additional information regarding fair value methods used in acquisition accounting, see note 6.

During the measurement period, we will adjust the values attributed to our preliminary opening balance sheet, most notably acquired property and equipment, intangible assets, leases and income taxes, as additional information is obtained about facts and circumstances that existed as of the closing date of the AT&T Acquisition. A summary of the preliminary opening balance sheet of the AT&T Acquired Entities at the October 31, 2020 acquisition date is presented in the following table (in millions):

Trade receivables	$ 51.0
Prepaid expenses	0.1
Current notes receivable	67.4
Other current assets	35.3
Goodwill (a)	352.2
Property and equipment	711.4
Customer relationships (b)	82.7
Intangible assets not subject to amortization (c)	894.4
Operating lease right-of-use assets	195.8
Other assets (d)	90.8
Accounts payable	(3.0)
Current portion of operating lease obligations	(32.5)
Current portion of debt and finance lease obligations	(0.2)
Other accrued and current liabilities	(31.8)
Long-term debt and finance lease obligations	(10.6)
Operating lease obligations	(163.3)
Non-current deferred tax liabilities (e)	(304.9)
Other long-term liabilities	(4.0)
Total purchase price (f)	$ 1,930.8

(a) The goodwill recognized in connection with the AT&T Acquisition is primarily attributable to (i) the ability to take advantage of the AT&T Acquired Entities' existing mobile network to gain immediate access to potential customers and (ii) synergies that are expected to be achieved through the integration of the AT&T Acquired Entities with Liberty PR. Due to the nature of the AT&T Acquisition, no tax deductions related to goodwill are expected.

(b) At October 31, 2020 the weighted average useful life of the acquired customer relationship intangible assets was approximately 10 years.

(c) Amount represents spectrum licenses.

(d) Other assets include $39 million in EIP receivables, as further described in note 3.

(e) Deferred tax liabilities represent the excess of the carrying amounts for book purposes over the tax bases of acquired assets and liabilities excluding goodwill.

(f) Amount excludes $56 million of direct acquisition costs, including $5 million incurred during 2019. Direct acquisition costs are included in impairment, restructuring and other operating items, net, in our consolidated statements of operations.

Our consolidated statement of operations for the year ended December 31, 2020 includes revenue of $174 million and net loss of $83 million attributable to the AT&T Acquired Entities.

Supplemental Pro Forma Information

The following unaudited pro forma financial information is based on the historical carve-out financial statements of the AT&T Acquired Entities and is intended to provide information about how the AT&T Acquisition may have affected Liberty PR's historical consolidated financial statements if it had closed as of January 1, 2019. The pro forma financial information below is based on available information and assumptions that we believe are reasonable. The pro forma financial information is for illustrative and informational purposes only and is not intended to represent or be indicative of what our results of operations would have been had the AT&T Acquisition occurred on the date indicated nor should it be considered representative of our future financial condition or results of operations.

	Year ended December 31,	
	2020	2019
	in millions	
Revenue	$ 1,361.3	$ 1,298.6
Net earnings	$ 58.6	$ 71.4

The pro forma information set forth in the table above includes tax-effected pro forma adjustments primarily related to:

i. the impact of estimated costs associated with the TSA that replaced parent-company allocations included in the historical financial statements of the AT&T Acquired Entities;

ii. the impact of new rate agreements associated with roaming, subsea and ethernet services;

iii. the alignment of accounting policies;

iv. interest expense related to additional borrowings in conjunction with the AT&T Acquisition; and

v. the elimination of direct acquisition costs.

(5) Derivative Instruments

In general, we seek to enter into derivative instruments to protect against increases in the interest rates on our variable-rate debt.

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

	December 31, 2020			December 31, 2019		
	Current	Long-term (a)	Total	Current	Long-term (a)	Total
	in millions					
Assets (b)	$ —	$ —	$ —	$ 6.3	$ 0.1	$ 6.4
Liabilities (b)	$ 28.9	$ 74.8	$ 103.7	$ 11.6	$ 33.4	$ 45.0

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

(b) We consider credit risk relating to our and our counterparty's nonperformance in the fair value assessment of our derivative instruments. In all cases, the adjustments take into account offsetting liability or asset positions. The changes in the credit risk valuation adjustments associated with our interest rate derivative contracts resulted in net gains of $3 million and $2 million during 2020 and 2019, respectively, and were not material during 2018. The gain during the 2020 period is primarily due to increased credit risk stemming from market reaction to the COVID-19 outbreak, as further described and defined in note 8. These amounts are included in realized and unrealized gains (losses) on derivative instruments, net, in our consolidated statements of operations. For further information regarding our fair value measurements, see note 6.

The derivative assets set forth in the table above exclude our Weather Derivative, as it is not accounted for at fair value.

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

	Year ended December 31,		
	2020	2019	2018
	in millions		
Interest rate derivative contracts	$ (80.1)	$ (26.9)	$ 4.0
Weather Derivative	(3.5)	(1.0)	—
Total	$ (83.6)	$ (27.9)	$ 4.0

Our net cash inflows (outflows) related to derivative instruments during 2020, 2019 and 2018 were ($15 million), $10 million and ($3 million), respectively, and are classified as operating activities in our consolidated statements of cash flows.

Counterparty Credit Risk

We are exposed to the risk that the counterparties to our derivative instruments will default on their obligations to us. We manage this credit risk through the evaluation and monitoring of the creditworthiness of our counterparties. Collateral has not been posted by either party under our derivative instruments. At December 31, 2020, our exposure to counterparty credit risk resulting from our net derivative position was not material.

We have entered into derivative instruments under 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.

Details of our Derivative Instruments

Interest Rate Derivative Contracts

Interest Rate Swaps

As noted above, we enter into interest rate swaps to protect against increases in the interest rates on our variable-rate debt. Pursuant to these derivative instruments, we typically pay fixed interest rates and receive variable interest rates on specified notional amounts. At December 31, 2020, the outstanding notional amount of our interest rate swap contracts was $1,000 million and the related weighted average remaining contractual life was 5.6 years.

Basis Swaps

Basis swaps involve the exchange of attributes used to calculate our floating interest rates, including (i) the benchmark rate, (ii) the underlying currency and/or (iii) the borrowing period. We typically enter into these swaps to optimize our interest rate profile based on our current evaluations of yield curves, our risk management policies and other factors. At December 31, 2020, the outstanding notional amount of our basis swap contracts was $1,000 million and the related weighted average remaining contractual life was 0.1 years.

(6) <u>Fair Value Measurements</u>

General

We use the fair value method to account for our derivative instruments. The reported fair values of our derivative instruments as of December 31, 2020 likely will not represent the value that will be paid or received upon the ultimate settlement or disposition of these assets and liabilities, as we expect that the values realized generally will be based on market conditions at the time of settlement, which may occur at the maturity of the derivative instrument or at the time of the repayment or refinancing of the underlying debt instrument.

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

All of our Level 2 inputs (interest rate futures, swap rates and certain of the inputs for our weighted average cost of capital calculations) and certain of our Level 3 inputs (non-interest rate curves and credit spreads) are obtained from pricing services. These inputs, or interpolations or extrapolations thereof, are used in our internal models to calculate, among other items, yield curves, forward interest and currency rates and weighted average cost of capital rates. In the normal course of business, we receive market value assessments from the counterparties to our derivative contracts. Although we compare these assessments to our internal valuations and investigate unexpected differences, we do not otherwise rely on counterparty quotes to determine the fair values of our derivative instruments. The midpoints of applicable bid and ask ranges generally are used as inputs for our internal valuations.

Recurring Fair Value Measurements - Derivatives

In order to manage our interest rate risk, we have entered into various derivative instruments, as further described in note 5. The recurring fair value measurements of these derivative instruments are determined using discounted cash flow models. Most of the inputs to these discounted cash flow models consist of, or are derived from, observable Level 2 data for substantially the full term of these derivative instruments. This observable data mostly includes interest rate futures and swap rates, which are retrieved or derived from available market data. Although we may extrapolate or interpolate this data, we do not otherwise alter this data in performing our valuations. We incorporate a credit risk valuation adjustment in our fair value measurements to estimate the impact of both our own nonperformance risk and the nonperformance risk of our counterparty. Our and our counterparty's credit spreads represent our most significant Level 3 inputs, and these inputs are used to derive the credit risk valuation adjustments with respect to these instruments. Notwithstanding the impact of COVID-19, as defined and described in note 8, on our credit risk, we generally would not expect changes in our or our counterparties' credit spreads to have a significant impact on the valuations of these instruments. As a result, we have determined that these valuations continue to fall under Level 2 of the fair value hierarchy. Our credit risk valuation adjustments with respect to our interest rate derivative contracts are quantified and further explained in note 5.

Nonrecurring Fair Value Measurements

Fair value measurements are also used for purposes of nonrecurring valuations performed in connection with acquisition accounting and impairment assessments.

Acquisition Accounting

The nonrecurring valuations associated with acquisition accounting, which use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy, primarily include the valuation of property and equipment, customer relationships and spectrum licenses, as further described below:

- *Property and equipment*. The valuation of property and equipment may use an indirect cost approach, which utilizes trends based on historical cost information, or a combination of indirect cost approach, market approach and direct replacement cost method, which considers factors such as current prices of the same or similar equipment, the age of the equipment and economic obsolescence.

- *Customer relationships.* The valuation of customer relationships is based on an excess earnings methodology, which is a form of a discounted cash flow analysis. The excess earnings methodology for customer relationship intangible assets requires us to estimate the specific cash flows expected from the acquired customer relationships, considering such factors as estimated customer life, the revenue expected to be generated over the life of the customer relationships, contributory asset charges and other factors.

- *Spectrum intangible assets.* The valuation of spectrum intangible assets may use either an adjusted market-based approach, which requires the calibration of observable market inputs to reflect the fair value of the assets acquired, or a combination of an adjusted market-based approach with other methods, such as an income-based approach (e.g. the "greenfield" valuation method), which requires a wide range of assumptions and inputs, including forecasting costs associated with building a complementary asset base.

During the fourth quarter of 2020, we performed a nonrecurring valuation related to the preliminary acquisition accounting for the AT&T Acquisition. For additional information related to the status of valuation work associated with property and equipment and intangible assets acquired in connection with the AT&T Acquisition, see note 4.

In connection with the AT&T Acquisition, we performed a nonrecurring valuation related to the preliminary acquisition accounting for the assets and liabilities acquired. The weighted average discount rate used in the valuation of the customer relationships acquired was approximately 10.5%.

Impairment Assessments

Fair value measurements are also used for purposes of nonrecurring valuations performed in connection with impairment assessments. The nonrecurring valuations associated with impairment assessments use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy. During 2020, we did not perform any significant fair value measurements associated with impairment assessments.

(7) Insurance Recoveries

In September 2017, the island of Puerto Rico was impacted by Hurricanes Maria and, to a lesser extent, Irma (collectively, the **Hurricanes**), resulting in extensive damage to homes, businesses and infrastructure. In December 2018, insurance claims for the Hurricanes were settled. The following table summarizes the third-party impact of the insurance settlements to our consolidated statements of operations for the year ended December 31, 2018 (in millions):

Other operating costs and expenses	$ 0.4
Business interruption loss recovery	48.5
Impairment, restructuring and other operating items, net (a)	18.6
Total	$ 67.5

(a) For information regarding the related-party impact of the insurance settlements to our consolidated statements of operations, see note 16.

During 2018, we received net advance payments related to the Hurricanes totaling $50 million ($45 million from a third-party insurance provider and the remainder from a captive insurance company (the **Captive**), a then subsidiary of Cable & Wireless Communications Limited (**C&W**)), of which $16 million is presented as a cash inflow from investing activities on our consolidated statement of cash flows.

During the first quarter of 2019, we received the remaining outstanding insurance settlement amount of $27 million, of which $18 million and $9 million have been presented as operating and investing activities, respectively, in our consolidated statement of cash flows.

(8) Long-lived Assets

Goodwill

At December 31, 2020 and 2019, the carrying amount of our goodwill was $630 million and $278 million, respectively. The increase during 2020 of $352 million is related to the AT&T Acquisition. During 2019, there was no change in the balance of our goodwill. For additional information regarding the AT&T Acquisition, see note 4.

We evaluate goodwill and other indefinite-lived intangible assets (primarily spectrum licenses 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 as further outlined in note 3. Based upon our October 1, 2020 evaluation, we did not identify any impairments of such assets.

COVID-19. During the first quarter of 2020, the World Health Organization declared the outbreak of a novel strain of Coronavirus (**COVID-19**) a "pandemic," pointing to the sustained risk of further global spread. COVID-19 has negatively impacted our results of operations and resulted in systemic disruption of the worldwide equity markets, and the market values of Liberty Latin America's publicly-traded equity declined significantly beginning in late February. During 2020, the impacts of COVID-19 did not have a significant impact on our operating results or cash flows. Notwithstanding the lack of a significant impact of COVID-19 during 2020, we did evaluate whether the facts and circumstances and available information resulted in the need for an impairment assessment for any of our long-lived assets, including goodwill, and concluded no assessment was required.

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, 2020	December 31, 2020	December 31, 2019
		in millions	
Distribution systems	5 to 15 years	$ 1,227.1	$ 623.2
Customer premises equipment (**CPE**)	3 to 5 years	305.2	269.9
Support equipment, buildings and land	3 to 40 years	227.7	76.6
		1,760.0	969.7
Accumulated depreciation		(523.9)	(445.5)
Total property and equipment, net		$ 1,236.1	$ 524.2

Depreciation expense related to our property and equipment was $86 million, $67 million and $68 million during 2020, 2019 and 2018, respectively.

Most of our property and equipment is pledged as security under the LPR Credit Facilities and the 2027 LPR Senior Secured Notes, as defined in note 9. For additional information, see note 9.

Customer Relationships, Net

The details of our customer relationships, which have an estimated average useful life of five to ten years at December 31, 2020, and the related accumulated amortization are set forth below:

	December 31,	
	2020	**2019**
	in millions	
Gross carrying amount	$ 231.8	$ 149.1
Accumulated amortization	(118.5)	(98.9)
Net carrying amount	$ 113.3	$ 50.2

Amortization expense of intangible assets with finite useful lives was $19 million, $18 million and $18 million during 2020, 2019 and 2018, respectively.

Based on our customer relationships balance at December 31, 2020, we expect that amortization expense will be as follows (in millions):

2021	$ 25.9
2022	21.7
2023	8.3
2024	8.3
2025	8.3
Thereafter	40.8
Total	$ 113.3

Intangible Assets Not Subject to Amortization

The details of our intangible assets not subject to amortization are set forth below:

	December 31,	
	2020	**2019**
	in millions	
Spectrum licenses (a)	$ 894.4	$ —
Cable television franchise rights	540.0	540.0
Other	1.4	1.3
Total intangible assets not subject to amortization	$ 1,435.8	$ 541.3

(a) The 2020 amount is primarily attributable to the AT&T Acquisition. For additional information regarding the assets acquired as part of the AT&T Acquisition, see note 4.

(9) Debt and Finance Lease Obligations

Our debt obligations are as follows:

	December 31, 2020		Estimated fair value (c)		Principal amount	
	Weighted average interest rate (a)	Unused borrowing capacity (b)	December 31,		December 31,	
			2020	2019	2020	2019
			in millions			
LPR Senior Secured Notes	6.75 %	$ —	$ 1,389.4	$ 1,278.3	$ 1,290.0	$ 1,200.0
LPR Credit Facilities (d)	5.14 %	125.0	1,002.5	1,012.1	1,000.0	1,000.0
Total debt before premiums, discounts and deferred financing costs	6.05 %	$ 125.0	$ 2,391.9	$ 2,290.4	$ 2,290.0	$ 2,200.0

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

	December 31,	
	2020	2019
	in millions	
Total debt before premiums, discounts and deferred financing costs	$ 2,290.0	$ 2,200.0
Premiums, discounts and deferred financing costs, net	(39.1)	(27.0)
Total carrying amount of debt	2,250.9	2,173.0
Finance lease obligations	10.5	—
Total debt and finance lease obligations	2,261.4	2,173.0
Less: Current maturities of debt and finance lease obligations	(0.1)	—
Long-term debt and finance lease obligations	$ 2,261.3	$ 2,173.0

(a) Represents the weighted average interest rate in effect at December 31, 2020 for all borrowings outstanding pursuant to each debt instrument, including any applicable margin. The interest rate presented represents the stated rate and does not include the impact of derivative instruments, deferred financing costs, original issue premiums or discounts and commitment fees, all of which affect our overall cost of borrowing.

(b) Unused borrowing capacity represents the maximum availability under the LPR Revolving Credit Facility (as defined and described below), at December 31, 2020 without regard to covenant compliance calculations or other conditions precedent to borrowing. At December 31, 2020, the full amount of unused borrowing capacity was available to be borrowed under the LPR Revolving Credit Facility, both before and after completion of the December 31, 2020 compliance reporting requirements.

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

(d) Represents the LPR Credit Facilities, which comprises the LPR Revolving Credit Facility and the 2026 SPV Credit Facility, each as defined and described below.

General Information—Senior Secured Notes. We have issued senior secured notes. In general, our senior secured notes (i) are senior obligations of each respective issuer within the borrowing group that rank equally with all of the existing and future debt of such issuer and are senior to all existing and future subordinated debt of each respective issuer within the borrowing group, (ii) contain, in most instances, guarantees from other entities of the borrowing group (as specified in the applicable indenture) and (iii) are secured by pledges over the shares of certain entities of the borrowing group and, in certain instances, over substantially all of the assets of those entities. In addition, the indenture governing our senior secured notes contain certain covenants, the more notable of which are as follows:

- Our notes contain certain customary incurrence-based covenants. In addition, our notes provide that any failure to pay principal prior to expiration of any applicable grace period, or any acceleration with respect to other indebtedness of the issuer or certain other members of the borrowing group, over agreed minimum thresholds (as specified under the applicable indenture), is an event of default under the respective notes;

- Our notes contain certain restrictions that, among other things, restrict the ability of the entities of the borrowing group to (i) incur or guarantee certain financial indebtedness, (ii) make certain disposals and acquisitions, (iii) create certain security interests over their assets, in each case, subject to certain customary and agreed exceptions and (iv) make certain restricted payments to its direct and/or indirect parent companies through dividends, loans or other distributions, subject to compliance with applicable covenants; and

- If the relevant issuer or certain of its subsidiaries (as specified in the applicable indenture) sell certain assets, such issuer must offer to repurchase the applicable notes at par, or if a change of control (as specified in the applicable indenture) occurs, such issuer must offer to repurchase all of the relevant notes at a redemption price of 101%.

2027 LPR Senior Secured Notes

In October 2019, LCPR Senior Secured Financing Designated Activity Company (**LCPR Senior Secured Financing**) issued $1.2 billion principal amount, at par, of 6.75% senior secured notes, due October 15, 2027 (the **2027 LPR Senior Secured Notes**). Interest is payable semi-annually on April 15 and October 15. LCPR Senior Secured Financing is a special purpose financing entity, created for the primary purpose of facilitating the issuance of certain debt offerings. Liberty Mobile is required to consolidate LCPR Senior Secured Financing as a result of certain variable interests in LCPR Senior Secured Financing, of which Liberty Mobile is considered the primary beneficiary.

Subject to the circumstances described below:

- The 2027 LPR Senior Secured Notes are non-callable until October 15, 2022.

- At any time prior to October 15, 2022, LCPR Senior Secured Financing may redeem some or all of the 2027 LPR Senior Secured Notes by paying a price equal to 100% of the principal amount of the 2027 LPR Senior Secured Notes redeemed plus accrued and unpaid interest and a “make-whole” premium, which is generally the present value of all remaining scheduled interest payments to October 15, 2022 using the discount rate (as specified in the indenture) as of the redemption date plus 50 basis points.

- At any time prior to October 15, 2022, subject to certain restrictions (as specified in the indenture), up to 40% of the 2027 LPR Senior Secured Notes may be redeemed with the net proceeds of one or more specified equity offerings at a redemption price equal to 106.750% of the principal amount redeemed, plus accrued and unpaid interest and additional amounts (as specified in the indenture), if any, to the redemption date.

- Prior to October 15, 2022, during each 12-month period commencing on October 9, 2019, up to 10% of the principal amount of the 2027 LPR Senior Secured Notes may be redeemed at a redemption price equal to 103% of the principal amount redeemed, plus accrued and unpaid interest and additional amounts (as specified in the indenture), if any, to the redemption date.

On and after October 15, 2022, LCPR Senior Secured Financing may redeem some or all of the 2027 LPR Senior Secured Notes at the following redemption prices (expressed as a percentage of principal amount) plus accrued and unpaid interest and additional amounts (as specified in the indenture), if any, to the applicable redemption date:

	Redemption Price
12-month period commencing October 15:	
2022	103.375%
2023	101.688%
2024 and thereafter	100.000%

The net proceeds from the 2027 LPR Senior Secured Notes, the 2027 LPR Senior Secured Notes Add-on (as defined and described below) and the SPV Escrowed Proceeds (as defined and described below) were deposited into escrow (collectively, the "**AT&T Acquisition Restricted Cash**"), subsequently released upon consummation of the AT&T Acquisition and used to fund one or more loans to one of our wholly-owned subsidiaries. The payment of all obligations under such loans are guaranteed by LCPR and certain of its affiliates and their respective significant subsidiaries, and all the issued capital stock or share capital of LCPR and each guarantor, and substantially all assets of LCPR and each guarantor will be pledged to secure the payment of such obligations. Such loans and a capital contribution from Liberty Latin America were used to finance the AT&T Acquisition and to pay related fees and expenses. At December 31, 2019, the AT&T Acquisition Restricted Cash was included in restricted cash in our consolidated balance sheet.

At December 31, 2020, the carrying value of the 2027 LPR Senior Secured Notes was $1,265 million.

Financing Transactions

2027 LPR Senior Secured Notes Add-on. In May 2020, LCPR Senior Secured Financing issued an additional $90 million aggregate principal amount, at 102.5% of par, under the existing 2027 LPR Senior Secured Notes indenture (the **2027 LPR Senior Secured Notes Add-on**). The terms and conditions of the 2027 LPR Senior Secured Notes Add-on are consistent with the original indenture.

As further described above, the net proceeds from the 2027 LPR Senior Secured Notes Add-on were deposited into escrow and subsequently released upon consummation of the AT&T Acquisition.

General Information—Credit Facilities. We have entered into credit facility agreements with certain financial institutions. Our credit facilities contain certain covenants, the more notable of which are as follows:

- Our credit facilities contain certain net leverage ratios, as specified in the relevant credit facilities agreements, which are required to be complied with on an incurrence or maintenance basis (as applicable);
- Our credit facilities contain certain restrictions which, among other things, restrict our ability to (i) incur or guarantee certain financial indebtedness, (ii) make certain disposals and acquisitions, (iii) create certain security interests over our assets, in each case, subject to certain customary and agreed exceptions, and (iv) make certain restricted payments to our direct and/or indirect parent companies through dividends, loans or other distributions, subject to compliance with applicable covenants;
- Our credit facilities require us to guarantee the payment of all sums payable under the relevant credit facilities and have first-ranking security granted over the shares in, and substantially all of the assets of, our borrower and guarantor entities, to secure the payment of all sums payable thereunder;
- In addition to certain mandatory prepayment events, the instructing group of lenders under the our credit facilities may cancel the commitments thereunder and declare the loans thereunder due and payable after the applicable notice period following the occurrence of a change of control (as specified in the credit facilities);
- Our credit facilities contain certain customary events of default, the occurrence of which, subject to certain exceptions and materiality qualifications, would allow the instructing group of lenders to (i) cancel the total commitments, (ii) accelerate all outstanding loans and terminate their commitments thereunder and/or (iii) declare that all or part of the loans be payable on demand;
- Our credit facilities require that we observe certain affirmative and negative undertakings and covenants, which are subject to certain materiality qualifications and other customary and agreed exceptions; and
- In addition to customary default provisions, our credit facilities include certain cross-default and cross-acceleration provisions with respect to our other indebtedness, subject to agreed minimum thresholds and other customary and agreed exceptions.

LPR Credit Facilities

The LPR Credit Facilities are the senior secured credit facilities of our company. The details of our borrowings under the LPR Credit Facilities as of December 31, 2020 are summarized in the following table:

LPR Credit Facilities	Maturity	Interest rate	Facility amount	Unused borrowing capacity	Outstanding principal amount	Carrying value (a)
				in millions		
LPR Revolving Credit Facility (b)	October 15, 2025	LIBOR + 3.50%	$ 125.0	$ 125.0	$ —	$ —
2026 SPV Credit Facility	October 15, 2026	LIBOR + 5.0%	$ 1,000.0	—	1,000.0	985.5
Total				$ 125.0	$ 1,000.0	$ 985.5

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

(b) The LPR Revolving Credit Facility has a fee on unused commitments of 0.5% per year.

Financing Transactions

2026 SPV Credit Facility. In October 2019, LCPR Loan Financing LLC (**LCPR Loan Financing**) entered into a LIBOR plus 5.0% $1.0 billion principal amount term loan facility, issued at 99.0% of par, due October 15, 2026 (the **2026 SPV Credit Facility**). Interest on the 2026 SPV Credit Facility is currently payable monthly. LCPR Loan Financing is a special purpose financing entity, created for the primary purpose of facilitating the issuance of certain term loan debt. LCPR is required to consolidate LCPR Loan Financing as a result of certain variable interests in LCPR Loan Financing, for which LCPR is considered the primary beneficiary.

LCPR Loan Financing used the proceeds from the 2026 SPV Credit Facility to (i) fund a new $947 million term loan (the **LPR Financing Loan**) to LCPR and (ii) deposit $53 million into escrow (the **SPV Escrowed Proceeds**), which was ultimately used to fund a portion of the AT&T Acquisition. The terms and conditions, including maturity and applicable interest rate, for the LPR Financing Loan are the same as those for the 2026 SPV Credit Facility. LCPR Loan Financing's obligations under the 2026 SPV Credit Facility are secured by interests over various assets, as further described in the 2026 SPV Credit Facility agreement.

The net proceeds from the LPR Financing Loan were used to redeem, in full, the $923 million outstanding principal amount of the LPR Bank Facility. This borrowing and repayment activity was treated as a non-cash transaction in our consolidated statement of cash flows. In connection with this transaction, we recognized a loss on debt modification and extinguishment of $7 million, which includes the write-off of unamortized discounts and deferred financing costs.

LPR Revolving Credit Facility. In October 2019, we entered into a LIBOR plus 3.5%, 6-year senior secured credit facility agreement providing for $125 million of revolving commitments (the **LPR Revolving Credit Facility**). Upon closing of the LPR Revolving Credit Facility, the previously existing revolving credit facility was cancelled.

In March 2020, we borrowed $63 million under the LPR Revolving Credit Facility. This drawdown was fully repaid in 2020.

Maturities of Debt

As of December 31, 2020, $1,000 million and $1,290 million of our debt matures in 2026 and 2027, respectively.

(10) Leases

The following table provides details of our operating lease expense:

	Year ended December 31,		
	2020	2019	2018 (a)
		in millions	
Operating lease expense:			
Operating lease cost	$ 8.9	$ 1.3	$ 2.5
Short-term lease cost	0.8	0.4	—
Total operating lease expense	$ 9.7	$ 1.7	$ 2.5

(a) Amounts reflect operating lease expense recorded under ASC 840, *Leases* (**ASC 840**), prior to adoption of ASU 2016-02 on January 1, 2019. Accordingly, amounts are not necessarily comparable.

Certain other details of our operating leases are set forth below:

	December 31,	
	2020	2019
	in millions	
Operating lease right-of-use assets	$ 192.9	$ 4.1
Operating lease liabilities:		
Current	$ 31.6	$ 0.7
Noncurrent	161.3	3.4
Total operating lease liabilities	$ 192.9	$ 4.1
Weighted-average remaining lease term	7.7 years	5.2 years
Weighted-average discount rate	4.9 %	9.0 %

	Year ended December 31,	
	2020	2019
	in millions	
Operating cash flows from operating leases	$ 8.8	$ 1.3
Right-of-use assets obtained in exchange for new operating lease liabilities (a)	$ 195.8	$ 0.3

(a) Represents non-cash transactions associated with operating leases entered into during the year. The 2020 amount is attributable to leases acquired in connection with the AT&T Acquisition.

Maturities of Operating Leases

Maturities of our operating lease liabilities (in millions) as of December 31, 2020 are presented below.

Years ending December 31:		
2021	$	40.1
2022		32.2
2023		27.3
2024		24.2
2025		20.9
Thereafter		90.1
Total operating lease liabilities on an undiscounted basis		234.8
Amount representing interest		(41.9)
Present value of operating lease liabilities	$	192.9

(11) Other assets, net

The details of our other assets, net are set forth below:

	December 31,	
	2020	2019
	in millions	
Prepaid expenses	$ 62.6	$ —
Notes receivable, net of an allowance of $7.9 million at December 31, 2020	52.4	—
Income tax receivable	39.8	—
Other	12.0	5.7
Total other assets, net	$ 166.8	$ 5.7

(12) Programming and other direct costs of services

Programming and other direct costs of services include programming and copyright costs, interconnect and access costs, commissions, costs of mobile handsets and other devices, and other direct costs related to our operations.

Our programming and other direct costs of services by major category are set forth below.

	Year ended December 31,		
	2020	2019	2018
		in millions	
Programming and copyright	$ 91.9	$ 85.0	$ 68.9
Interconnect and commissions	14.2	7.5	9.8
Equipment and other	58.2	0.3	0.7
Total programming and other direct costs of services	$ 164.3	$ 92.8	$ 79.4

(13) Other Operating Costs and Expenses

Other operating costs and expenses set forth in the table below comprise the following cost categories:

- **Personnel and contract labor-related costs**, which primarily include salary-related and cash bonus expenses, net of capitalizable labor costs, and temporary contract labor costs;

- **Network-related** expenses, which primarily include costs related to network access, system power, core network, and CPE repair, maintenance and test costs;
- **Service-related** costs, which primarily include professional services, information technology-related services, audit, legal and other services;
- **Commercial**, which primarily includes sales and marketing costs, such as advertising, commissions and other sales and marketing-related costs, and customer care costs related to outsourced call centers;
- **Facility, provision, franchise and other**, which primarily includes facility-related costs, provision for bad debt expense, franchise-related fees, bank fees, insurance, travel and entertainment and other operating-related costs; and
- **Share-based compensation** costs that relate to Liberty Latin America share-based incentive awards held by certain of our employees, as further described in note 16.

Our other operating costs and expenses by major category are set forth below.

	Year ended December 31,		
	2020	**2019**	**2018**
		in millions	
Personnel and contract labor	$ 62.1	$ 39.5	$ 41.5
Network-related	6.7	4.5	2.0
Service-related	24.9	10.6	7.8
Commercial	19.0	10.9	12.6
Facility, provision, franchise and other	70.2	50.6	45.0
Share-based compensation expense	5.1	2.2	1.2
Total other operating costs and expenses	$ 188.0	$ 118.3	$ 110.1

(14) Income Taxes

Income tax benefit (expense) consists of:

	Year ended December 31,		
	2020	**2019**	**2018**
		in millions	
Current tax benefit (expense) - Puerto Rico	$ (9.0)	$ (6.1)	$ (5.7)
Current tax benefit (expense) - U.S. Virgin Islands	(1.1)	—	—
Deferred tax benefit - U.S.	37.7	0.6	—
Deferred tax benefit - Puerto Rico	15.0	3.2	(14.0)
Deferred tax (expense) - U.S. Virgin Islands	(0.6)	—	—
Total income tax benefit (expense)	$ 42.0	$ (2.3)	$ (19.7)

Income tax benefit (expense) attributable to our company's earnings (loss) before income taxes differs from the amounts computed using the applicable income tax rate as a result of the following:

	Year ended December 31,		
	2020	2019	2018
		in millions	
Computed "expected" tax benefit (expense) (a)	$ 28.6	$ 1.7	$ (14.5)
Change in valuation allowance	21.7	(3.5)	—
Permanent differences	(5.8)	(0.5)	—
Withholding Tax	(5.0)	—	—
International rate differential benefit (expense)	0.2	0.3	(5.3)
Change in tax rate	—	—	(0.1)
Other, net	2.3	(0.3)	0.2
Total income tax benefit (expense)	$ 42.0	$ (2.3)	$ (19.7)

(a) The statutory or "expected" tax rate is the U.S. Federal rate of 21.0% for 2020, 2019 and 2018.

Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. The components of our deferred tax assets (liabilities) are as follows:

	December 31,	
	2020	2019
	in millions	
Deferred tax assets	$ 1.5	$ 3.1
Deferred tax liabilities	(386.3)	(137.2)
Net deferred tax liability	$ (384.8)	$ (134.1)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	December 31, 2020	December 31, 2019
	in millions	
Deferred tax assets:		
Net operating losses, credits and other carryforwards	$ 309.0	$ 45.3
Deferred revenue	15.1	—
Other future deductible amounts	14.6	5.8
Deferred tax assets	338.7	51.1
Valuation allowance	(2.7)	(24.4)
Deferred tax assets, net of valuation allowance	336.0	26.7
Deferred tax liabilities:		
Investment in subsidiaries	(143.2)	(160.8)
Intangible assets	(478.5)	—
Property and equipment, net	(89.4)	—
Other future taxable amounts	(9.7)	—
Deferred tax liabilities	(720.8)	(160.8)
Net deferred tax liabilities	$ (384.8)	$ (134.1)

Liberty PR is not a separate tax-paying entity for U.S. federal or state income tax purposes. Accordingly, the taxable income of Liberty PR is included in the income tax returns of our partners. Income taxes reflected in our financial statements relate to the activities of our subsidiaries.

Our subsidiaries file consolidated and/or separate income tax returns and operate in the United States, Puerto Rico and U.S. Virgin Islands. Our deferred income tax valuation allowance is primarily related to net operating loss and accrued and unpaid interest carryforward attributes generated on stand-alone activities of LCPR Ventures and Cayman Holding in Puerto Rico in light of recent Puerto Rico tax reform which restricts the ability of corporate partners to utilize stand-alone losses against sources of income derived from underlying partnerships. Our estimate of realization is based on projected earnings (including timing of such earnings) and consideration of any technical limitations on realization.

As of December 31, 2020, our tax loss carryforwards and related tax assets were $137 million and $51 million, respectively, for Puerto Rico purposes. Such tax loss carryforwards have an expiration period between 2024 through 2030. As of December 31, 2020, our tax loss carryforwards and related tax assets were $9 million and $2 million, respectively, for U.S. purposes. Such tax loss carryforwards expire beginning in the year 2037. As of December 31, 2020, our tax loss carryforwards and related tax assets were $40 million and $9 million, respectively, for U.S. Virgin Islands purposes. Such tax loss carryforwards expire beginning in the year 2033 and are subject to annual limitation on use, but expected to be fully realized.

For Puerto Rico tax purposes, our alternative minimum tax credits are $46 million, with an indefinite life**,** and for U.S. federal tax purposes our foreign tax credits are $24 million which have expiration periods between 2021-2030.

In the normal course of business, the income tax filings of our subsidiaries 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.

We maintain an uncertain tax position reserve of $1 million as of December 31, 2020 and 2019, respectively. During 2020 and 2019, our income tax expense includes interest expense of $0.1 million and $0.1 million, respectively, representing the net accrual of interest and penalties incurred during the period.

The tax returns filed by our company for tax years prior to 2017 are no longer subject to examination by tax authorities. We do not anticipate that any adjustments that might arise from tax authorities' examinations would have a material impact on our consolidated financial position or results of operations.

(15) Partners' Capital

During the fourth quarter of 2020, we received an equity contribution of $672 million from Liberty Latin America, of which $70 million related to a non-cash equity settlement of the LiLAC Loan as defined and described in note 16. A portion of this equity contribution was used to fund the AT&T Acquisition. For additional information regarding the AT&T Acquisition, see note 4.

In April 2019, certain B2B operations of C&W in Puerto Rico were transferred to LCPR (the **C&W Transfer**). In connection with the C&W Transfer, we paid C&W $16 million, which is reflected as an investing cash outflow in our consolidated statement of cash flows, representing the estimated fair value of the net assets acquired. We accounted for the C&W Transfer as a transfer of assets under common control, and, as such, the excess consideration paid over the aggregate carrying value of the net assets received has been reflected as a decrease to our partners' capital accounts in our consolidated statement of changes in partners' capital.

During 2018, we received a cash contribution from a subsidiary of Liberty Latin America of $85 million.

(16) Related-party Transactions

Our related-party transactions are as follows:

	Year ended December 31,		
	2020	2019	2018
		in millions	
Revenue	$ 1.4	$ 1.7	$ 1.8
Programming and other direct costs of services	$ 6.7	$ 5.7	$ 4.6
Other operating costs and expenses	$ 2.6	$ 0.8	$ 0.3
Allocated share-based compensation expense	$ 5.1	$ 2.2	$ 1.2
Impairment, restructuring and other operating items, net	$ —	$ —	$ (4.7)
Related-party fees and allocations:			
Other operating costs and expenses	$ 7.5	$ 5.1	$ 2.8
Share-based compensation	7.1	4.0	1.4
Management fee	0.6	0.4	0.4
Total fees and allocations	$ 15.2	$ 9.5	$ 4.6
Realized and unrealized losses on derivative instruments, net	$ 2.8	$ —	$ —

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

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

Other operating costs and expenses. The 2020 amount includes our estimated share of costs charged to our company by Liberty Latin America, primarily related to personnel costs. In addition, the amounts for 2020 and 2019 include (i) insurance costs allocated to us by a subsidiary of Liberty Latin America and (ii) various services provided by subsidiaries of Liberty Latin America. The 2018 amount represents various services provided by subsidiaries of Liberty Latin America.

Allocated share-based compensation expense. These amounts represent share-based compensation expense that Liberty Latin America allocated to our company with respect to share-based incentive awards held by certain of our employees.This charge is cash settled and is included in related-party accrued liabilities in our consolidated balance sheets. The 2020 amount includes estimated bonus-related expenses for the 2020 year that will be paid in the form of Liberty Latin America equity.

Impairment, restructuring and other operating items, net. This amount represents the insurance recoveries that are ultimately the obligation of the Captive. For additional information regarding the insurance settlements resulting from the Hurricanes, including the third-party recoveries, see note 7.

Related-party fees and allocations. The amounts represent fees charged to our company by Liberty Latin America and are expected to be cash settled. Although we believe the related-party fees and allocations described below are reasonable, no assurance can be given that the related-party costs and expenses reflected in our consolidated statements of operations are reflective of the costs that we would incur on a standalone basis. The categories of our fees and allocations are as follows:

- *Other operating costs and expenses (exclusive of depreciation and share-based compensation)*. The amounts included in this category represents our estimated share of certain centralized technology, management, marketing, finance, legal and other operating costs of Liberty Latin America's operations, whose activities benefit multiple operations, including operations within and outside of our company. The amounts allocated represent our estimated share of the actual costs incurred by the operations of Liberty Latin America, without a mark-up.

- *Share-based compensation.* The amounts included in this category represent share-based compensation associated with employees of Liberty Latin America who are not employees of our company. The amounts allocated represent our estimated share of the actual costs incurred by the operations of Liberty Latin America, without a mark-up.

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

Realized and unrealized losses on derivative instruments, net. These amounts represent amortization of the premium associated with our Weather Derivative contract, which is underwritten by the Captive.

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

	December 31,	
	2020	2019
	in millions	
Assets:		
Related-party receivables (a)	$ 9.2	$ 0.5
Other assets, net (b)	1.5	1.5
Total assets	$ 10.7	$ 2.0
Liabilities:		
Accounts payable (c)	$ 7.7	$ 4.3
Related-party accrued liabilities (d)	16.3	7.7
Total liabilities	$ 24.0	$ 12.0

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

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

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

(d) The amounts primarily represent related-party liabilities associated with (i) related-party fees and allocations and (ii) allocated share based compensation expense. In addition, the 2020 amount includes liabilities associated with mobile handset insurance service provided to us by another subsidiary of Liberty Latin America. All of the aforementioned liabilities are non-interest bearing and will be cash settled.

In October 2020, we entered into a loan agreement with another subsidiary of Liberty Latin America (the **LiLAC Loan**) whereby we borrowed $70 million. The LiLAC Loan was non-interest bearing and, through a series of related-party agreements during the fourth quarter of 2020, was non-cash equity settled by way of a $70 million equity contribution from another subsidiary of Liberty Latin America.

For information regarding our related-party commitments that are not included in liabilities in our December 31, 2020 consolidated balance sheet, see note 17.

(17) 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 programming contracts, network and connectivity commitments, franchise authorities and municipalities.

Network and connectivity commitments include domestic network usage agreements with C&W, that call for payments of $0.6 million per year through December 31, 2027. These commitments do not reflect any liabilities that are included in our December 31, 2020 consolidated balance sheet.

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. Historically, payments to programming vendors have represented a significant portion of our operating costs, and we expect that this will continue to be the case in future periods.

We also have commitments under derivative instruments pursuant to which we expect to make payments in future periods. For information regarding our derivative instruments, including the net cash paid or received in connection with these instruments during 2020, 2019 and 2018, see note 5.

Legal and Regulatory Proceedings and Other Contingencies

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

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

(18) Revenue by Product

Our revenue by major category, set forth in the table below, includes the following categories:

- residential fixed subscription and residential mobile services revenue include amounts received from subscribers for ongoing fixed and airtime services, respectively;
- residential fixed non-subscription revenue primarily includes late fees, advertising revenue and franchise fees; and

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

	Year ended December 31,		
	2020	2019	2018
		in millions	
Residential revenue:			
Residential fixed revenue:			
Subscription revenue:			
Video	$ 147.2	$ 140.9	$ 118.9
Broadband internet	204.7	175.0	132.5
Fixed-line telephony	25.5	23.4	18.6
Total subscription revenue	377.4	339.3	270.0
Non-subscription revenue	17.7	21.7	17.4
Total residential fixed revenue	395.1	361.0	287.4
Residential mobile revenue:			
Service revenue	82.9	—	—
Interconnect, inbound roaming, equipment sales and other (a)	50.6	—	—
Total residential mobile revenue	133.5	—	—
Total residential revenue	528.6	361.0	287.4
B2B service revenue (b)	89.8	51.1	37.1
Other revenue (c)	5.7	—	11.1
Total	$ 624.1	$ 412.1	$ 335.6

(a) Amount includes $11 million of inbound roaming revenue and $38 million of revenue from sales of mobile handsets and other devices.

(b) Amount for 2020 includes $7 million of revenue from sales of mobile handsets and other devices to B2B mobile customers.

(c) Amount for 2020 relates to revenue received from the FCC related to Liberty Mobile following the closing of the AT&T Acquisition. Amount for 2018 relates to funds received from the FCC, which were granted to help restore and improve coverage and service quality from damages caused by the Hurricanes.