INTERIM FINANCIAL STATEMENTS

Colombia Telecomunicaciones S.A. ESP

At September 30, 2017 and for the nine-month period ended September 30, 2017

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	Notes	At September 30,		At June 30,	
		2017			
Assets		**(in *thousands of US$*[(a)]**	**(in *thousands of COP$)***	**(in *thousands of US$*[(a)]**	**(in *thousands of COP$)***
Current Assets:					
Cash and cash equivalents		53,917	158,337,257	29,790	87,482,826
Financial assets	*(4)*	298	875,251	184,855	542,857,578
Trade and other accounts receivables, net	*(5)*	266,635	783,018,851	263,701	774,404,015
Prepaid expenses	*(6)*	23,494	68,995,062	35,279	103,602,669
Inventories	*(7)*	60,813	178,586,589	43,746	128,466,859
Taxes and public administrations	*(8)*	70,117	205,909,404	80,599	236,691,393
Total current assets		**475,274**	**1,395,722,414**	**637,970**	**1,873,505,340**
Non-current assets:					
Financial assets	*(4)*	229,885	675,095,936	58,898	172,964,184
Trade and other accounts receivables, net	*(5)*	61,943	181,906,191	63,455	186,347,052
Prepaid expenses	*(6)*	16,795	49,320,718	13,960	40,994,455
Property, plant and equipment, net	*(9)*	1,540,823	4,524,887,982	1,545,851	4,539,653,053
Intangibles	*(10)*	860,330	2,526,504,433	307,721	903,674,411
Goodwill		319,806	939,163,377	319,806	939,163,377
Deferred taxes	*(11)*	356,634	1,047,316,650	378,521	1,111,587,169
Total non-current assets		**3,386,216**	**9,944,195,287**	**2,688,212**	**7,894,383,701**
Total assets		**3,861,490**	**11,339,917,701**	**3,326,182**	**9,767,889,041**
Liabilities					
Current liabilities:					
Financial obligations	*(12)*	118,402	347,708,084	189,493	556,479,295
Other financial obligations - Parapat	*(12)*	-	-	235,797	692,458,776
Suppliers and accounts payable	*(13)*	414,440	1,217,072,756	392,795	1,153,509,046
Taxes and public administrations	*(8)*	47,482	139,439,665	82,485	242,232,609
Deferred liabilities		32,898	96,608,460	31,992	93,941,434
Provisions	*(14)*	56,350	165,480,825	51,246	150,492,477
Total current liabilities		**669,572**	**1,966,309,790**	**983,808**	**2,889,113,637**
Non-current liabilities:					
Financial obligations	*(12)*	1,168,118	3,430,378,020	1,221,886	3,588,275,582
Other financial obligations – Parapat	*(12)*	-	-	1,185,814	3,482,343,491
Suppliers and accounts payable	*(13)*	68,449	201,011,100	69,193	203,196,678
Deferred liabilities		26,243	77,067,730	29,000	85,163,194
Provisions		17,795	52,256,971	18,188	53,412,116
Deferred taxes	*(11)*	77,638	227,996,396	87,382	256,611,257
Total non-current liabilities		**1,358,243**	**3,988,710,217**	**2,611,463**	**7,669,002,318**
Total liabilities		**2,027,815**	**5,955,020,007**	**3,595,271**	**10,558,115,955**
Shareholder´s equity, net	*(15)*	**1,833,675**	**5,384,897,694**	**(269,089)**	**(790,226,914)**
Total liabilities and shareholder´s equity		**3,861,490**	**11,339,917,701**	**3,326,182**	**9,767,889,041**

(a) Solely for the convenience of the reader, Colombian pesos amounts at September 30 and June 30, 2017, have been translated into US dollars at the exchange rate formed in the interbank market on September 30, 2017 of COP$2,936.67 to US$1,00.

The accompanying notes 1 to 24 are an integral part of these interim statements of financial position.

Colombia Telecomunicaciones S.A. ESP
Interim Statements of Comprehensive Income
Unaudited Figures

	Notes	Period from January 1 to September 30, 2017 (in *thousands of US$*)[(a)]	2017 (in *thousands of COP$*)	2016 (in *thousands of US$*)[(a)]	2016 (in *thousands of COP$*)
Operating revenue:					
Sales and services provision, net	*(16)*	1,216,133	3,571,382,307	1,200,680	3,526,000,990
Other operating revenue	*(16)*	28,160	82,696,864	29,830	87,600,090
		1,244,293	**3,654,079,171**	**1,230,510**	**3,613,601,080**
Operating costs and expenses	*(17)*	(853,658)	(2,506,913,144)	(853,896)	(2,507,610,528)
Operating income before depreciation and amortization – OIBDA		**390,635**	**1,147,166,027**	**376,614**	**1,105,990,552**
Depreciation and amortization	*(18)*	(278,843)	(818,870,773)	(248,592)	(730,031,315)
Operating income		**111,792**	**328,295,254**	**128,022**	**375,959,237**
Financial expenses, net	*(19)*	(98,521)	(289,324,345)	(81,248)	(238,598,812)
Interest expenses – Parapat	*(19)*	(119,336)	(350,451,210)	(133,988)	(393,478,813)
Profit before wealth tax		**(106,065)**	**(311,480,301)**	**(87,214)**	**(256,118,388)**
Wealth tax	*(20)*	(1,736)	(5,098,107)	(4,206)	(12,351,561)
Profit before taxes		**(107,801)**	**(316,578,408)**	**(91,420)**	**(268,469,949)**
Income and deferred tax	*(20)*	(85,907)	(252,280,659)	(46,737)	(137,250,394)
Net (loss) of the period		**(193,708)**	**(568,859,067)**	**(138,157)**	**(405,720,343)**
Other comprehensive income:					
Profit in hedge valuation, net of tax		1,553	4,565,849	4,521	13,276,262
Revaluation of land and buildings, net of tax		(1,386)	(4,068,525)	(1,554)	(4,564,668)
Other comprehensive income		**167**	**497,324**	**2,967**	**8,711,594**
Total (Loss) comprehensive profit of the period		**(193,541)**	**(568,361,743)**	**(135,190)**	**(397,008,749)**

(a) Solely for the convenience of the reader, Colombian *pesos* amounts for the nine-month period ended September 30, 2017 and September 30, 2016 have been translated into US dollars at the exchange rate formed in the interbank market on September 30, 2017 of COP$2,936.67 to US$1,00.

The accompanying notes 1 to 24 are an integral part of these interim statements of financial position.

Colombia Telecomunicaciones S.A. ESP
Interim Statement of Changes in Shareholder´s Equity, Net
Unaudited Figures

	Subscribed and paid-in capital	Additional Paid-in Capital	Statutory Reserves	Other Equity Instruments	Reserves from Revaluation, net of deferred tax	Reserves from Cash Flows Hedge Derivatives	Accumulated Income	Total Shareholder´s Equity, Net
					(In thousands of US$) [a]			
Balances at March 31st, 2017	**495**	**1,154,119**	**12,295**	**430,096**	**135,695**	**14,325**	**(1,957,409)**	**(210,384)**
Net loss of the period	–	–	–	–	–	–	(66,878)	(66,878)
Depreciation and real estate revaluation write-offs (Note 9)	–	–	–	–	(779)	–	–	(779)
Hedges valuation, net	–	–	–	–	–	(1,687)	–	(1,687)
Deferred tax	–	–	–	–	306	10,333	–	10,639
Balances at June 30, 2017	**495**	**1,154,119**	**12,295**	**430,096**	**135,222**	**22,971**	**(2,024,287)**	**(269,089)**
Issue shares (Note 3)	666	2,191,835	–	–	–	–	-	2,192,501
Equity perpetual instruments' coupon	–	–	–	–	–	–	(21,282)	(21,282)
Net loss of the period	–	–	–	–	–	–	(70,627)	(70,627)
Depreciation and real estate revaluation write-offs	–	–	–	–	(760)	–	–	(760)
Hedges valuation, net	–	–	–	–	–	(12,837)	–	(12,837)
Deferred tax (Note11)	–	–	–	–	303	15,466	–	15,769
Balances at September 30, 2017	**1,161**	**3,345,954**	**12,295**	**430,096**	**134,765**	**25,600**	**(2,116,196)**	**1,833,675**

(a) Solely for the convenience of the reader, Colombian pesos amounts at September 30 and June 30, 2017 and March 31, 2016 have been translated into US dollars at the exchange rate formed in the interbank market on September 30, 2017 of COP$2,936,67 to US$1,00.

	Subscribed and paid-in capital	Additional Paid-in Capital	Statutory Reserves	Other Equity Instruments	Reserves from Revaluation, net of deferred tax	Reserves from Cash Flows Hedge Derivatives	Accumulated Income	Total Shareholder´s Equity, Net
					(In thousands of COP$)			
Balances at March 31st, 2017	**1,454,871**	**3,389,266,946**	**36,105,611**	**1,263,049,667**	**398,491,347**	**42,067,033**	**(5,748,267,325)**	**(617,831,850)**
Net loss of the period	–	–	–	–	–	–	(196,399,259)	(196,399,259)
Depreciation and real estate revaluation write-offs (Note 9)	–	–	–	–	(2,282,761)	–	–	(2,282,761)
Hedges valuation, net	–	–	–	–	–	(4,953,179)	–	(4,953,179)
Deferred tax	–	–	–	–	893,188	30,346,947	–	31,240,135
Balances at June 30, 2017	**1,454,871**	**3,389,266,946**	**36,105,611**	**1,263,049,667**	**397,101,774**	**67,460,801**	**(5,944,666,584)**	**(790,226,914)**
Issue shares (Note 3)	1,955,188	6,436,694,762	–	–	–	–	–	6,438,649,950
Equity perpetual instruments' coupon	–	–	–	–	–	–	(62,497,738)	(62,497,738)
Net loss of the period	–	–	–	–	–	–	(207,408,968)	(207,408,968)
Depreciation and real estate revaluation write-offs	–	–	–	–	(2,232,359)	–	–	(2,232,359)
Hedges valuation, net	–	–	–	–	–	(37,697,422)	–	(37,697,422)
Deferred tax (Note11)	–	–	–	–	893,188	45,417,957	–	46,311,145
Balances at September 30, 2017	**3,410,059**	**9,825,961,708**	**36,105,611**	**1,263,049,667**	**395,762,603**	**75,181,336**	**(6,214,573,290)**	**5,384,897,694**

The accompanying notes 1 to 24 are an integral part of these interim statements of financial position.

Colombia Telecomunicaciones S.A. ESP
Interim Statements of Cash Flow
Unaudited Figures

	Period from January 1 to September 30,			
	2017		2016	
	(in thousands of US$) [(a)]	(in thousands of COP$)	(in thousands of US$) [(a)]	(in thousands of COP$)
Net cash flows generated in operating activities				
Cash received from customers	1,350,045	3,964,635,884	1,290,211	3,788,924,427
Cash paid to suppliers and other accounts payables	(996,457)	(2,926,264,034)	(865,876)	(2,542,791,965)
Net interests paid and other financial expenses	(65,341)	(191,885,102)	(74,960)	(220,132,821)
Consideration share to Parapat	(89,058)	(261,534,068)	(112,227)	(329,574,127)
Indirect taxes paid	(61,627)	(180,978,797)	(49,954)	(146,697,191)
Wealth tax	(2,315)	(6,797,477)	(5,610)	(16,475,234)
Self-withholdings on Income Tax and income tax for equality CREE (21)	(40,091)	(117,733,609)	(42,361)	(124,400,257)
Net cash provided for operating activities	**95,156**	**279,442,797**	**139,223**	**408,852,832**
Net cash flows in investment activities				
Payments for investments in the plant and equipment and intangible assets	(615,953)	(1,808,850,005)	(238,522)	(700,461,151)
Collections from temporary financial investments	-	-	29,916	87,853,630
Payments for temporary financial investments	-	-	(25,770)	(75,678,776)
Net cash used for investment activities	**(615,953)**	**(1,808,850,005)**	**(234,376)**	**(688,286,297)**
Net Cash flows in financing activities				
Perpetual equity instruments coupon´s payment	(42,683)	(125,347,339)	(46,732)	(137,235,085)
Increase of capital	1,483,001	4,355,085,484	-	-
New financial debt	62,642	183,957,538	185,665	545,237,394
Collections from exchange rate hedges	94,592	277,785,103	8,945	26,269,828
Financial debt payments	(169,264)	(497,072,557)	(57,060)	(167,566,935)
Capital amortization of Parapat	(926,670)	(2,721,325,311)	-	-
Net cash provided for financing activities	**501,618**	**1,473,082,919**	**90,818**	**266,705,202**
Net decrease of cash and cash equivalents	**(19,179)**	**(56,324,289)**	(4,334)	**(12,728,263)**
Cash and cash equivalents at January 1,	73,097	214,661,546	99,619	292,547,137
Cash and cash equivalents at September 30,	**53,917**	**158,337,257**	**95,285**	**279,818,874**

Reconciliation of cash and cash equivalents with the interim statement of financial position:

Balance at January 1,	**73,097**	**214,661,546**	**99,619**	**292,547,137**
Cash on hand and at banks	51,565	151,429,174	76,676	225,171,083
Other cash equivalents	21,532	63,232,372	22,943	67,376,054
Balance at September 30,	**53,917**	**158,337,257**	**95,284**	**279,818,874**
Cash on hand and at banks	47,567	139,689,834	94,811	278,427,523
Other cash equivalents	6,350	18,647,423	473	1,391,351

(a) Solely for the convenience of the reader, Colombian *pesos* amounts for the nine-month period ended September 30, 2017 and September 30, 2016 have been translated into US dollars at the exchange rate formed in the interbank market on September 30, 2017 of COP$2,936,67 to US$1,00.

The accompanying notes 1 to 24 are an integral part of these interim statements of financial position.

At September 30, 2017 and for the nine-month period ended September 30, 2017
(Figures expressed in thousands of pesos and thousands of dollars, except for exchange rates and where otherwise indicated)

Note 1 – Reporting Entity

Colombia Telecomunicaciones S.A. ESP (hereinafter "the Company") was incorporated as a commercial incorporated company in Colombia through Public Deed No, 1331 of June 16, 2003 with a duration until December 31, 2092 with main domicile in Bogotá D,C, located in transversal 60 No,114 A 55, the Company, whose capital is majority owned by individuals, is subject to the legal regime provided by Law 1341 of 2009 and other applicable regulations, thus being classified as a utility service provider (ESP for its abbreviation in Spanish).

The Company's main purpose is the organization, operation, delivery, provision, exploitation of activities, networks and telecommunications services, such as switched local basic public telephony, local extended and national and international long distance, mobile services, cellular mobile telephony in any territorial, national or international order, carriers, teleservices, telematics, value-added services, satellite services in their different modalities, television services in all its forms including cable television, broadcasting services, wireless technologies, video, computer application hosting services, data center services, public and private telecommunications networks operation services and overall operations of information systems, services of provision and/or generation of contents and applications, information services and any other activity, product or qualified as a telecommunications service, and/or information technologies and communications (TICs for its abbreviation in Spanish) such as resources, tools, equipment, software, applications, networks and media, enabling the compilation, processing, storage, transmission of information such as voice, data, text, video and images, including complementary and supplementary activities, within the national territory and abroad and in connection to the outside, making use of property, assets and own rights or exercising the use and enjoyment of property, assets and rights of third parties. Likewise, the Company may develop the commercial activities that have been defined in its statutes.

Note 2 – Basis of accounting

These interim Financial Statements have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the Company last annual financial statements as at and for the year ended December 31, 2016 ('last annual financial statements'), They do not include all of the information required for a complete set of IFRS financial statements, however, selected explanatory notes are included to explain events and transactions that are significant for an understanding of the changes in the financial position and performance of the Company since the last financial statements.

The Interim Financial Statements presented in this document are separated. In accordance with NIC 27, the Company recognized the subsidiaries investments at fair value, as stated by the law, which allows the non-consolidation of the same, (see details in Note 4).

According to the offering memorandum related to the Senior Bond issue, the Company will provide certain financial information to the Trustee for the delivery to bondholders; in this case an English version of the Company's unaudited quarterly interim financial statements.

In the preparation of these Interim Financial Statements, significant management judgments in applying accounting policies were the same as those applied to the financial statements for the year ended at December 31, 2016. These Interim Financial Statements have been prepared on the basis of the historical cost model, except for land and buildings, the derivative financial instruments and the financial investments that have been measured at their fair value.

The carrying amounts of the recognized assets and liabilities, and designated as items being hedged in the hedging relationships of fair value that otherwise would be carried at their amortized cost, have been adjusted to record the changes in the attributable fair values at the risks covered in the respective effective hedging relationships.

Note 2 – Basis of accounting (continued)

These Interim Financial Statements are presented in Colombian pesos and all values have been rounded to the nearest thousand (COP$000), unless otherwise indicated, all references herein to, "pesos" or "COP$" are to pesos, the official currency of Colombia, and all references herein to "US dollars," or "US$" are to US dollars. We maintain our books and records in pesos, solely for the convenience of the readers, we have converted the amounts included in the set "Interim Financial Statements", in the "Notes to the Interim Financial Statements" and in this document from Colombian pesos into US dollars using the exchange rate formed in the interbank market on September 30, 2017 of COP$2,936,67 to US$1,00. These convenience conversions should not be considered representations that any such amounts have been, could have been or could be converted in the future into US dollars at that or at any other exchange rate.

- **Estimates, Significant Accounting Judgments and Assumptions**

In preparing the Interim Financial Statements, the management makes judgments, estimations and assumptions that could affect the values of revenues, expenses, assets and liabilities reported at the date of the Interim Financial Statements, including the related disclosures. Even though they may differ from their final effect, management considers that the estimates and assumptions used were adequate in every circumstance.

Among the main estimates and accounting judgments there are: i) deferred taxes, ii) contingent liabilities, iii) revaluation, iv) impairment of assets, v) definition of the fair value of financial instruments, vi) estimate for dismantling.

- **Exchange Rate Fluctuations**

Although we publish our financial statements in COP$, a portion of our assets, liabilities, revenues and expenses are denominated in currencies other than COP$, therefore, we are exposed to fluctuations in the value of these currencies against the COP$. Hence, currency fluctuations have had and may continue to have a material impact on our financial condition, results of operations and cash flows.

- **Financial Risk Management**

The Company actively manages risks through the use of derivative financial instruments (primarily on exchange rate and interest rate); as well, the net balance sheet positions are taken into account in order to take advantage of natural hedges that are offset directly, therefore to avoid incurring on bid-offer spread costs on hedging operations.

The main financial risk management objectives and policies of the Company at September 30, 2017, and for the nine-month period ended on that date, are consistent with those disclosed in the financial statements at December 31, 2016 and for the year ended on that date.

- **Materiality criteria**

These Interim Financial Statements do not include any information or disclosures that don´t require presentation due to their qualitative significance, therefore they have been determined as immaterial or of no relevance pursuant to the concepts of materiality or relevance defined in the IFRS conceptual framework.

- **Interim Statement of Cash Flow**

The Interim Statement of Cash Flow was prepared according to the direct method. The direct method presents cash flows from activities through a summary of cash outflows and inflows.

Note 2 – Basis of accounting (continued)

- **Operation Segments**

The Company's Management prepares sufficient financial and managing information to assess profitability, risk and the assets managed at Company level. Although the Company prepares certain financial and management information of each of the business areas, it is not sufficient to evaluate and determine individually profitability, risk, and assets and liabilities allocated as required by IFRS 8.

Given the requirements of IFRS regarding the identification of segments and based on the available information, the Company's Management has identified a single business segment.

- **Expense for Income Tax**

The income tax expense includes the current tax expense and the deferred tax. Colombian companies, pursuant to Law 1819 of 2016, are subject to the corporate income tax, for the year 2017 at a rate of 34% and for the year 2018 and following years of 33%. This law establishes a surcharge to the income tax, which is regressive and temporary, for the year 2017 of 6.0% and for the year 2018 of 4.0%, the latter applicable to taxable bases of US $277 (COP$800,000) onwards, leaving the total tax rate as follows; 2017 of 40%, 2018 of 37% and 2019 and following years of 33%.In addition to the aforementioned, Colombian tax regulation establishes that the basis for calculating said tax is established on the higher net taxable income of a company and its presumptive income, under the applicable regulations, the presumptive income is equivalent to 3.5% of the company's fiscal net worth of the previous year. However, in accordance with article 73 of Law 1341 and article 24 of Law 142 of 1994, the Company, being cataloged as a Utility Company, has not determined, nor paid the income tax based on presumptive income.

Regardless of the tax expense recognized, the tax legislation provides that the companies are obliged monthly to pay in advance the income tax, through automatic withholdings that are calculated on the tax settlement basis. The corporate income tax return includes the annual accrual of self-reimbursements paid by the Company, which after the presentation and approval of the tax authority, the compensation and/or refund process to the Company of the amount generated in the balance in favor of the declaration. The credit balance can be used to offset indirect tax payments such as the VAT sales tax or the suppliers' withholdings.

In addition, the Company is also required to pay an annually decreasing wealth tax (*Impuesto a la Riqueza*) of 1.15% in 2015, 1.0% in 2016 and 0.4% in 2017, calculated based on our net worth.

The miscellaneous income tax is computed at the rate of 10% on the sale of fixed assets held for 2 years or more, of the resulting profit at the time of sale, the net income shall be attributed in the first instance for the recovery of the accumulated depreciation and the remaining profit, if any, it is the occasional profit.

- **Impairment of non-current assets**

At the end of period, the presence or absence of impairment on non-current assets, including goodwill, intangibles assets, property and plant and equipment is evaluated. If such indicators exist or when it comes to assets which are subject to annual impairment analysis, the Company estimates the recoverable value of the asset, being the higher of the fair value minus the cost of disposal and its value in use, such value in use is determined by the discount of the estimated future cash flows by applying a discount rate before taxes that reflects the value of money over time and considering the specific risks associated to the asset.

When the recoverable value of an asset is below its net book value, it is considered impaired. In this case, the book value is adjusted to the recoverable value, recording the loss in the Comprehensive Income Statement, Amortization charges for future periods are adjusted to the new accounting value over the remaining useful life.

Note 2 – Basis of accounting (continued)

To determine the impairment, the Company uses the strategic plan of its sole cash generating unit to which assets are assigned, this strategic plan usually covers a period of three years. For longer periods, from the third year projections based on these plans by applying a constant or decreasing rate of expected growth are used, this rate separately considers each assessed element and the included growth is a reflect of the trend of the same in recent years.

The used discount rates are determined before taxes and are adjusted by the country risk rate and corresponding business risk, Thus, in 2016 and 2015, a nominal percentage rate calculated in pesos of 11.08% and 10.49%, respectively, was used; concluding that by the end of 2016, there is no evidence of impairment in long-term assets.

- **Impairment of non-current assets**

When new events take place or changes in existing circumstances indicates that an impairment loss recorded in a prior period may have disappeared or been reduced, a new estimate of the recoverable amount of the corresponding asset is made. Losses previously recorded are reversed only if the assumptions used in calculating the recoverable amount would have changed since the most recent impairment loss was recognized. In this case, the carrying amount of the asset is increased to its new recoverable value, with the limit of the net book value that such asset would have if no impairment losses have been recognized in previous periods. The reversal is recognized in the Comprehensive Income Statement and the charges for amortization of future periods are adjusted to the new carrying amount, unless the asset is carried at its revalued amount, in which case the reversal is treated similarly to a revaluation increase. Impairment losses of goodwill are not reversed in subsequent periods.

- **Financial assets impairment**

At the end of the period, the Company assesses whether there is any objective evidence that a financial asset or group of financial assets are impaired in value. A financial asset or group of financial assets are considered impaired in value only if there is objective evidence of impairment of that value as a result of one or more events that occurred after the asset's initial recognition (the "event causing the loss"), and that event causing the loss has an impact on estimated future cash flows generated by the financial asset or the group of financial assets, and that impact can be estimated reliably.

The evidence of impairment could include, among others, indications such that as debtors or group of debtors are in significant financial difficulties, default or delinquency in debt principal or interest payment, the probability that they go bankrupt or adopt other form of financial reorganization, or when observable data indicates that there is a measurable decrease in the estimated future cash flows, as well, adverse changes in the status of payments in arrears or economic conditions that correlate with defaults.

Charges for impairment of financial assets, net of recoveries that apply, are presented in the Comprehensive Income Statement, in financial costs and other operating expenses lines, as appropriate to the nature of the assets that generate them.

- **Inventories**

Warehouse materials for installation in investment projects, as well, as inventories of goods for sale are valued at the lower of weighted average cost or net realizable value, the smaller of the two. The valuation of obsolete, defective or slow-moving inventories, have been reduced to their probable net realizable value the calculation of the recoverable value of inventories is made in function on their age and turnover.

The net asset value is calculated based on the estimated sales value during the normal business course minus the estimated costs of selling.

Costs of inventories include the transfer from the other comprehensive income of any gain or loss arising on cash flow hedges used for inventory purchases in foreign currency.

Note 3 – Significant Events

a) Capital Management – Going Concern

At December 31st, 2016 and June 30st, 2017, the Company showed a negative shareholders' equity of US$118,348 (COP$361,012,985) and US$259,054 (COP$790,226,914), respectively, resulting in the Company's ground for dissolution once presented for the approval of the end-of-year Financial Statements to the Shareholders' Meeting held on March 24, 2017. Based on the foregoing and as of that date, the Company had 18 months to adopt such measures that may be necessary to avoid the Company's dissolution, term expiring in September of 2018.

In August 29 and September 27, 2017, shareholders decided to increase the capital of the Company for an aggregate amount of US$2,197,039 (COP$6,451,978,494), in order to strengths the Company financial condition, reducing its indebtedness and obligations, and remedy the dissolution event. All the transactional costs related to the capital increase, meaning legal, notarial, and registry services, as well, fee costs, totaled US$ 4,539 (COP$ 13,328,544), where recorded as a minor value in the shareholder´s equity. The Telefónica Group and the Government of Colombia (represented by the Ministry of Finance) subscribed the capital increase pro rata to their respective shareholding in Colombia Telecomunicaciones S.A. ESP. The proceeds of the capitalization were intended to:

a) Pay in full the obligations with the PARAPAT derived from the Operating Agreement. Thus, the contract was terminated in advance and resulted in the transfer to Colombia Telecomunicaciones S.A. ESP of the property, rights and telecommunications assets associated with it.
b) Meet the payment in relation to the arbitration award rendered in Colombia on July 25th regarding the reversal of certain assets linked to the provision of mobile voice services under former concessions.

In accordance with the share's placement procedures, as of September 30, 2017, Telefónica S.A disbursed its 67.5% contribution and the Government of Colombia assumed the 32.5% of the payment obligations with the Parapat and the Ministry of TIC (arbitral award).

As of September 30, 2017, the Company has paid both the Parapat and the Arbitral Award. In connection with the prepay of the Parapat, the Company payment obligations vis-a-vis the PARAPAT are completely extinguished resulting in the termination of the Operating Agreement and the transfer to the Company of the property, rights and assets.

b) Arbitral award under Colombian court system

Prior to March 2014, the Company had the right to use 40MHz of radio spectrum (25MHz in the 850MHz band and 15MHz in the 1900MHz band) pursuant a concession agreement in 1994. The concession agreement contained a "reversion of assets" provision that require the Company to return to the Colombian government, upon expiration of each concession, the assets directly related to the concession.

Pursuant to Colombian administrative law, upon the termination of each concession agreement, the parties are required to enter into a "liquidation agreement" (acta de liquidación) within six months after termination, confirming that no further obligations are outstanding under the concessions. As part of the negotiation of this liquidation agreement, the parties discussed with the Ministry of TIC the scope of the "reversion of assets" provision.

Certain provisions of Colombian law (Article 4 of Law 422 of 1998, or Article 4, and Article 68 of Law 1341 of 2009, or Article 68), enacted after the execution of our Mobile Services Concession Agreements, state that in respect of concession agreements for telecommunication services the obligation to return assets to the Colombian government upon expiration applies only to the radio electric spectrum associated with the concession.

During the liquidation stage of the concession, parties did not reach an understanding in this regard, reason why the Ministry of TIC initiated arbitration proceedings under Colombian law before an ad hoc tribunal. The outcome of such arbitration proceeding was not favorable to the Company and other telecommunications operator in Colombia.

Note 3 – Significant Events (continued)

b) Arbitral award under Colombian court system (continued)

The proceeds from the capital increase were used to pay the entire amount set forth in the arbitration award issued in the arbitration proceedings.

Telefónica Group decision to participate in the arbitration award-Capital Increase is a manifestation of its commitment to the Company, to the continuity in the provision of services and to its customers and users, but it does not constitute, and should not be understood, as an acceptance of the sentence imposed by the arbitration award. The Company and foreign shareholder therefore reserves all of its legal rights and the exercise by Telefónica or Colombia Telecomunicaciones ESP S.A. of any applicable legal action, national or international.

- **Inflation**

Annual inflation at the end of the third quarter was within the Central Bank target range, reaching the minimum level in July (3.4% LTM), followed by an increase in August and September to 3.87% and 3.97% LTM, respectively, despite low monthly data (average 0.04% MoM in 3Q17), due to a statistical effect. This evolution was explained by the unexpected quick convergence in food inflation (average -0.18% MoM in 3Q17), in line with the recovery in food supply after “El Niño” climatic phenomenon. In fact, monthly food inflations were negative in this period, meaning an annual food inflation of 2.21% LTM in September 2017, 840 bps lower than the one of 2016. On the other hand, tradable annual inflation declined to 3.41% LTM in September, 100 bps lower than the one registered in June, due to the appreciation of the Colombian peso. Finally, annual non-tradable inflation kept the high of 5.2% LTM due to the price indexation effect, that occurs during most part of the year.

- **Interest rate**

In the third quarter of 2017, the Central Bank decided to reduce the interest rate by 50 bps through two reductions of 25 bps in July and August, and a stabilization at 5.25% in September. After several months of continuous descents, the Central Bank took a pause and normalized the process in September, due to three main reasons: i) annual inflation increased 47 bps in August; ii) signs of economic recovery during the second semester and iii) real interest rate reached near the neutral interest rate. In annual basis, the Central Bank has reduced 225 bps the interest rate.

- **Exchange rate**

The average exchange rate during 2017 was COP$2,931.51 per US$1,00, 4.2% lower than the one observed during the same period of 2016 (COP3.068,28 for US$1,00). The appreciation of the Colombian peso was mainly associated to 1) better performance in oil prices, 2) improvement in the country´s credit risk, whereas the five year Credit Default Swap decreased in average 90 bps compared to same period last year, and 3) lower pressures on most Latin American currencies including the Colombian peso, associated to Trump´s economic initiatives that was expected to boost American economy and increased rates faster than expected and now it seems less probable of being executed.

Note 4 – Financial Assets

The breakdown of the current financial assets is the following:

	At September 30,		At June 30,	
	2017			
Current financial assets	**(in *thousands of* US$)**	**(in *thousands of* COP$)**	**(in *thousands of* US$)**	**(in *thousands* of COP$)**
Hedging derivatives (a)	298	875,251	184,855	542,857,578
Current financial assets	**298**	**875,251**	**184,855**	**542,857,578**
Other equity participation (b)	221,895	651,630,941	48,237	141,655,989
Deposits and guaranteed	3,906	11,471,264	3,987	11,708,142
Hedging derivatives (a)	4,084	11,993,731	6,674	19,600,053
Non-current financial assets	**229,885**	**675,095,936**	**58,898**	**172,964,184**
Total financial assets	**230,183**	**675,971,187**	**243,753**	**715,821,762**

a) The derivatives portfolio valuation, shows a decrease of 97.7%, or US$187,147 (COP$549,588,649), mainly explained by: i) a decrease in the valuation of Bond's swaps mainly explained by maturity of Full CIRS and unwind of CIRS Margin and IRS by US$175,322 (COP$514,863,392); ii) decrease in the exchange rate valuation of non-delivery-forwards by US$10,023 (COP$29,433,899) due to the exchange rate revaluation during the period; iii) decrease in valuation of USD currency Options by US$1,731 (COP$5,084,155) associated mainly with an exchange rate revaluation during the period and vi) increase in Credit Valuation Adjustment provision affecting negatively the financial asset by US$ 71 (COP$207,203).

b) According with the Parapat Agreement, it exists within two direct financial investments Empresa de Telecomunicaciones de Bucaramanga S.A. ESP and Metropolitana de Telecomunicaciones S.A. ESP and an indirect asset Optecom S.A.S . On the 27th of September of the present year, the Company prepay the Parapat Agreement and therefore it initiated the transfer process of the mentioned assets in favor of the Company, taking total control of the companies.

   Therefore, Colombia Telecomunicaciones S.A. ESP will control the following investments, with direct and indirect participation:

Company	Domicile	Share
Empresa de Telecomunicaciones de Bucaramanga S.A. ESP	Bucaramanga	94.48%
Metropolitana de Telecomunicaciones S.A. ESP	Barranquilla	88.80%
Optecom S.A.S	Barranquilla	91.07%

As follow, at the end of September 2017, the Company made a valuation regardless the assigned price of purchase of the transaction and as a result it was recorded an increase of US$ 173,658 (COP$ 509,974,952).

Note 5 – Trade and Other Accounts Receivables, net of Impairment

Trade and other accounts receivables increased by 1.1%, or US$2,934 (COP$8,614,836) and non-current, decreased 2.4% or US$1,512 (COP$4,440,861) compared to the closing on June 30, 2017.

	At September 30,		**At June 30,**	
	2017			
	(in *thousands* US $)	**(in *thousands* COP$)**	**(in *thousands* US $)**	**(in *thousands* COP$)**
Current				
Customers for sale and services provision (1)	376,145	1,104,615,784	371,305	1,090,401,683
Commercial agents and distribution channels	51,440	151,061,682	52,209	153,320,509
Portfolio for handsets	47,196	138,597,855	47,582	139,732,385
Portfolio with domestic operators	35,235	103,474,489	36,076	105,943,777
Shareholders, related parties and associated companies (2)	18,711	54,946,692	19,006	55,813,190
Other debtors	16,533	48,551,092	16,509	48,482,507
Foreign debtors	6,090	17,885,290	3,155	9,265,895
Advance payments delivered	580	1,702,055	430	1,261,706
Impairment for doubtful collection portfolio	(285,295)	(837,816,088)	(282,571)	(829,817,637)
	266,635	**783,018,851**	**263,701**	**774,404,015**
Non-current				
Portfolio with domestic operators	45,838	134,610,499	45,838	134,610,499
Portfolio of grants and contributions	12,978	38,111,870	12,978	38,111,870
Shareholders, related parties and associated companies	12,703	37,305,264	13,205	38,778,590
Customers for sale and services (3)	49,020	143,954,374	50,030	146,921,909
Impairment for doubtful collection portfolio	(58,596)	(172,075,816)	(58,596)	(172,075,816)
	61,943	**181,906,191**	**63,455**	**186,347,052**
	328,758	**964,925,042**	**327,156**	**960,751,067**

(1) Includes residential, business and wholesale customers whose billing is pending.
(2) Among the main transactions, it includes local telephony operations, consulting, interconnection, roaming and data transmission service.
(3) Corresponds to portfolio with the National Academic Network Corporation (RENATA) for the sale of equipment for MPLS (dedicated channels) and connectivity.

Note 6 – Prepaid Expenses

Short term prepaid expenses decreased by 33.4% or US$11,785 (COP$34,607,607) compared to June 30, 2017 mainly due to amortization of maintenance and support contracts and permits for the use of the spectrum (microwave).

Long term prepaid expenses increased by 20.3% US$2,835 (COP$8,326,263) during the last quarter due to the recording of deferred cost of materials and equipment associated to television service.

Note 7 – Inventories

Inventories at the end of the third quarter of 2017 increased by 39.0%, or US$17,067 (COP$50,119,730), compared to June 30, 2017. The breakdown is detailed as follows:

Note 7 – Inventories (Continue)

	At September 30,		At June 30,	
	2017			
	(in *thousands of* US$)	(in *thousands of* COP$)	(in *thousands of* US$)	(in *thousands of* COP$)
Mobile phones and accessories	40,828	119,899,055	38,073	111,808,702
Equipment in transit	13,553	39,800,972	4,172	12,250,915
Other inventories	6,898	20,257,668	2,149	6,309,710
Computer equipment	565	1,658,105	513	1,506,481
	61,844	**181,615,800**	**44,907**	**131,875,808**
Impairment loss	(1,031)	(3,029,211)	(1,161)	(3,408,949)
	60,813	**178,586,589**	**43,746**	**128,466,859**

The increase in the inventory at the end of the third quarter of 2017 is explained as follows: i) change in the business model of TV Servicie as of first of July, 2017, previously recorded as capital expenditure, which generated an increase in inventory of US$ 4,210 (COP$ 12,362,752), and ii) equipment in transit of US$11,005 (COP$ 32,322,334).

Note 8 – Taxes and Public Administrations

The asset balance for taxes and public administrations is presented as follows:

	At September 30,		At June 30,	
	2017			
	(in *thousands of* US$)	(in *thousands of* COP$)	(in *thousands of* US$)	(in *thousands of* COP$)
Credit balance of income tax and income tax for equality (CREE) (a)	25,735	75,574,837	51,995	152,691,665
Self-withholding for income tax (b)	39,324	115,482,406	25,427	74,671,258
Advance payments, withholdings and self-withholding ICA (c)	3,817	11,209,563	2,703	7,941,752
Income tax withholdings (d)	1,205	3,537,820	420	1,232,727
Sales tax withholding	36	104,778	54	153,991
	70,117	**205,909,404**	**80,599**	**236,691,393**

The decrease of US$10,482 (COP$30,781,989) at the end of September 30 of 2017, compared to the end of June 30 of 2017, is explained as follows:

a) The Colombian tax authority – DIAN authorized the clearing of the 2016 tax returns balance in favor (withholding returns) for US$26,260 (COP$77,116,828) as follows: i) the sales tax – IVA of January and February 2017 was US$ 19,535 (COP$ 57,363,996), and ii) withholding tax on April 2017 for US$ 6,726 (COP$ 19,752,832).

b) An increase of US$13,897 (COP$40,811,148) for the accrual of the self-withholdings for income tax of the third quarter of 2017.

c) An increase of US$1,113 (COP$3,267,811) for the recording of advance payments, withholdings and selfwithholdings related to the industry and commerce tax – ICA in the third quarter of 2017.

Note 8 – Taxes and Public Administration (continued)

d) An increase of US$785 (COP$2,305,093) for the accrual of the income tax withholdings in the third quarter of 2017 by finance entities.

The liability balance for taxes and public administrations is presented as follows:

	At September 30,		At June 30,	
	2017			
	(in *thousands of* US$)	(in *thousands of* COP$)	(in *thousands of* US$)	(in *thousands of* COP$)
Sales tax proportionality – VAT (a)	34,241	100,555,148	60,861	178,728,474
National consumption tax (b)	3,031	8,899,710	4,040	11,865,609
Withholdings and self-withholdings (c)	9,319	27,367,421	15,399	45,221,101
Surcharges and stamps	160	470,007	167	490,233
Wealth Tax (d)	-	-	1,157	3,398,738
Municipal taxes	731	2,147,379	861	2,528,454
	47,482	**139,439,665**	**82,485**	**242,232,609**

Decrease of US$35,003 (COP$102,792,944), at the end of September 30 of 2017, compared to the end of June 30 of 2017, is explained as follows:

a) Net decrease in sales tax of US$26,620 (COP$78,173,326) explained by: i) the payment of May and July 2017 of US$17,659 (COP$51,859,504) ii) accrual of September 2017 for US$10,573 (COP$31,050,173) and iii) decrease by clearing of the first two months of 2017 for US$19,535 (COP$57,363,996) with the balance in favor of income tax.

b) Net decrease of the National Consumption Tax by US$1,009 (COP$2,965,899) explained by: i) payment of May and June, 2017 for US$1,974 (COP$5,795,746) and ii) accrual of September, 2017 for US$965 (COP$2,829,847).

c) Net decrease of the withholdings for income tax, VAT and self-withholdings for the income tax by US$6,080 (COP$17,853,680) explained by: i) payment of outstanding balance as of June 2017 for US$15,399 (COP$45,221,101) including a clearing of US$6,726 (COP$19,752,832) with balance in favor of 2016 income tax returns, remaining balance of US$8,673 (COP$25,468,269) was paid in cash; ii) net result of third quarter accrual of US$28,376 (COP$83,330,023) minus payments of July –August period of US$19,056 (COP$55,962,602).

d) Decrease by US $ 1,157 (COP $ 3,398,738) for the second payment of the wealth tax of 2017.

Note 9 – Property, Plant and Equipment

The composition at September 30, 2017 and the movement of property, plant and equipment during the third quarter of 2017 were as follows:

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Note 9 - Property, Plant and Equipment (continued)

Concept	Balance at June 30, 2017	Acquisitions / Addition	Retirements	Transfers	Revaluation(1)	Balance at September 30, 2017
Cost:			*(In thousands of US$)*			
Land and construction	1,045,364	939	(78)	-	-	1,046,225
Technical installations, machinery and others equipment	2,819,210	48,577	(1,222)	14,762	-	2,881,327
Equipment under construction and assembly	121,401	2,206	(530)	227	-	123,304
Furniture, and equipment of information	223,776	13,107	(18)	(15,609)	-	221,256
	4,209,751	**64,829**	**(1,848)**	**(620)**	**-**	**4,272,112**
Accumulated depreciation:						
Constructions	(558,561)	(12,219)	41	-	(762)	(571,501)
Technical installations, machinery and other equipment	(1,936,168)	(51,747)	995	-	-	(1,986,920)
Furniture and equipment of information	(169,171)	(4,227)	530	-	-	(172,868)
	(2,663,900)	**(68,193)**	**1,566**	**-**	**(762)**	**(2,731,289)**
	1,545,851	**(3,364)**	**(282)**	**(620)**	**(762)**	**1,540,823**

Concept	Balance at June 30, 2017	Acquisitions / Addition	Retirements	Transfers	Revaluation(1)	Balance at September 30, 2017
Cost:			*(In thousands of COP$)*			
Land and construction	3,069,890,530	2,757,416	(227,969)	-	-	3,072,419,977
Technical installations, machinery and others equipment	8,279,088,240	142,651,893	(3,589,627)	43,352,544	-	8,461,503,050
Equipment under constructions and assembly	356,513,623	6,477,916	(1,556,655)	667,567	-	362,102,451
Furniture, and equipment of information	657,156,683	38,491,641	(52,468)	(45,840,374)	-	649,755,482
	12,362,649,076	**190,378,866**	**(5,426,719)**	**(1,820,263)**	**-**	**12,545,780,960**
Accumulated depreciation:						
Constructions	(1,640,308,606)	(35,883,067)	116,786	-	(2,232,359)	(1,678,307,246)
Technical installations, machinery and other equipment	(5,685,887,749)	(151,962,704)	2,922,916	-	-	(5,834,927,537)
Furniture and equipment of information	(496,799,668)	(12,413,701)	1,555,174	-	-	(507,658,195)
	(7,822,996,023)	**(200,259,472)**	**4,594,876**	**-**	**(2,232,359)**	**(8,020,892,978)**
	4,539,653,053	**(9,880,606)**	**(831,843)**	**(1,820,263)**	**(2,232,359)**	**4,524,887,982**

(1) Revaluation of real state

Note 9 - Property, Plant and Equipment (continued)

The Company opted for subsequent measurement using the revaluation model to record at fair value the land and buildings as of December 31, 2014. Studies were conducted in November and December of 2014 by external consultants (Price Waterhouse Coopers and Onasi Ltda) which had the necessary experience for this type of work, based on methods recognized by the International Standard Valuation Standards (IVS).

Depreciation of revalued real state (buildings) is carried out under the straight-line method and is based on the remaining assets useful life, affecting the accumulated amortization and, as a counterpart, the amortization of the revaluation reserve presented in Equity as Other Comprehensive Income.

Any movement that affects the net value by revaluation will be reflected in the equity in the reserves account for the revaluation of real estate.

Based on the analysis of recoverable amounts, the Company's management shows no signs of deterioration of property, plant and equipment.

The Company determined, based on the fair value analysis, that there was no evidence of impairment of property, plant and equipment at the end of 2016, being the recoverable amount higher than the book value.

Note 10 – Intangibles Assets

The composition at September 30, 2017 and the movement of intangibles assets during the third quarter of 2017, were as follows:

Concept	Balance at June 30, 2017	Acquisitions / Addition	Retirements	Transfers	Balance at September 30, 2017
Cost:			*(In thousands of US$)*		
Operating licenses (1)	240,829	562,205	-	-	803,034
Computer applications (2)	569,991	13,153	(724)	620	583,040
Customers list (3)	211,653	-	-	-	211,653
Other intangibles (4)	29,013	-	-	-	29,013
Intangible assets in development (1)	1,250	6,165	-	-	7,415
	1,052,736	**581,523**	**(724)**	**620**	**1,634,155**
Accumulated amortization					
Operating licenses	(87,540)	(12,884)	-	-	(100,424)
Computer applications	(435,198)	(16,370)	724	-	(450,844)
Customers list	(211,653)	-	-	-	(211,653)
Other intangibles	(10,624)	(280)	-	-	(10,904)
	(745,015)	**(29,534)**	**724**	**-**	**(773,825)**
	307,721	**551,989**	**-**	**620**	**860,330**

Note 10 – Intangibles Assets (continued)

Concept	Balance at June 30, 2017	Acquisitions / Addition	Retirements	Transfers	Balance at September 30, 2017
Cost:			*(In thousands of COP$)*		
Operating licenses(1)	707,235,092	1,651,012,000	-	-	2,358,247,092
Computer applications(2)	1,673,875,651	38,625,032	(2,127,182)	1,820,263	1,712,193,764
Customers list(3)	621,555,372	-	-	-	621,555,372
Other intangibles(4)	85,201,529	-	-	-	85,201,529
Intangible assets in development(1)	3,670,191	18,103,792	-	-	21,773,983
	3,091,537,835	**1,707,740,824**	**(2,127,182)**	**1,820,263**	**4,798,971,740**
Accumulated amortization					
Operating licenses	(257,076,995)	(37,835,446)	-	-	(294,912,441)
Computer applications	(1,278,034,360)	(48,072,477)	2,127,182	-	(1,323,979,655)
Customers list	(621,555,372)	-	-	-	(621,555,372)
Other intangibles	(31,196,697)	(823,142)	-	-	(32,019,839)
	(2,187,863,424)	**(86,731,065)**	**2,127,182**	**-**	**(2,272,467,307)**
	903,674,411	**1,621,009,759**	**-**	**1,820,263**	**2,526,504,433**

(1) Corresponds to i) licenses required to provide telecommunications services, primarily for the provision of mobile services and added value, these licenses are of national coverage and are granted for a 10-year period, being the license for the operation of mobile telephony granted in March 2014, the license to operate 4G technology awarded in November 2013 and the license of use frequency band of the radio spectrum in March 2011, the most representative, ii) permits obtained for the provision of television services (DBS) or direct television service to home, iii) additionally includes the value of the arbitration award for asset reversal, issued in the month of August for a value of US$562,205 (COP$1,651,012,000) which was recorded as a higher value of the mobile phone operating license.(see more details in Note 3)

(2) Corresponds to acquired software applications for the Company's different technological platforms.

(3) Corresponds to the value assigned to the list of customers associated with the fixed telephony service.

(4) It mainly includes payments made by the Company for the rights to use the infrastructure of Internexa, Azteca Comunicaciones Colombia and Gas Natural FENOSA in fiber optic nodes deployed at the national level.

The Company determined, based on the fair value analysis, that there was no evidence of impairment of intangibles at the end of 2016, being the recoverable amount higher than the book value.

Note 11 - Deferred Tax

Deferred Tax Assets

Deferred tax assets decreased by 5.8% or US$21,886 (COP$64,270,519) compared to the end of June 31 of 2017, mainly as result of:

a) Net decrease of US$8,269 (COP$24,282,919) associated to the prepay of Parapat liability whose effects are:

   i. Net decrease of US$36,732 (COP$107,871,094) due to the prepay of Parapat liability which involves the reversal of the deductible temporary difference at the end of third quarter and the recognition of a deferred tax asset in connection with future tax losses provided that a reasonable expectation exists such tax losses might be used to offset the income tax expense over the next six years according to the strategic plan of the Company.

   ii. the reclassification to deferred tax liability of US$28,464 (COP$83,588,175) associated to revalued cost of the real estate of the Parapat assets which was recorded as a lower value of the asset.

b) Net decrease of US$13,617 (COP$39,987,600) due to the quarterly use of temporary differences in connection with Parapat prior to prepay date by US$13,903 (COP$40,828,784) and the depreciation of the revalued cost of Parapat properties with consideration in Other Comprehensive Income by US$286 (COP$841,184) .

Note 11 - Deferred Tax (continued)

Deferred Tax Liabilities

Deferred tax liabilities decreased by 11.2% or US$9,744 (COP$28,614,861) compared to the end of June 30, 2017, mainly as result of:

a) Decrease of US$47,533 (COP$139,589,839) due to the use of taxable temporary differences, mainly generated by the valuation of hedges with effect in the Comprehensive Income Statement.
b) Decrease of US$15,466 (COP$45,417,957) due to the use of taxable temporary differences, mainly generated by the valuation of hedges with effect in Other Comprehensive Income.
c) Decrease of US$18 (COP$52,004) due to the depreciation of the revalued cost of own properties with consideration in Other Comprehensive Income.
d) Increase of US$53,273 (COP$156,444,939) associated to the prepay of Parapat liability whose effects are the reclassification to deferred tax liability of US$28,464 (COP$83,588,175) associated to revalued cost of the real estate of the PARAPAT assets which was previously recorded as a lower value of the asset and the recording of a deferred tax liability of US$24,809 (COP$72,856,764) due to temporary differences arising from the transfer of ownership of the Parapat's property to The Company.

Note 12 – Financial Obligation and Other Financial Obligations

Financial obligations total US$1,286,520 (COP$3,778,086,104) as of September of 2017, showing a decrease of 54.6% or US$1,546,470 (COP$4,541,471,041) compared to June 2017, explained by the prepay of Parapat which balance was US$1,421,611 (COP$4,174,802,267) as of June of 2017. (See more details in Note 3)

	At September 30,		At June 30,	
	2017			
Current	**(in thousands of US$)**	**(in thousands of COP$)**	**(in thousands of US$)**	**(in thousands of COP$)**
Financial obligations (a)	93,189	273,665,027	158,321	464,936,747
Hedging instruments (d)	17,133	50,312,669	15,586	45,771,588
Other financial obligations (interests)	8,080	23,730,388	15,586	45,770,960
	118,402	**347,708,084**	**189,493**	**556,479,295**
Other financial obligations - PARAPAT (c)	-	-	235,797	692,458,776
Total Current	**118,402**	**347,708,084**	**425,290**	**1,248,938,071**
Non - current				
Financial obligations (b)	1,161,936	3,412,224,329	1,221,198	3,586,258,990
Hedging Instruments (d)	6,182	18,153,691	687	2,016,592
	1,168,118	**3,430,378,020**	**1,221,885**	**3,588,275,582**
Other financial obligations - PARAPAT (c)	-	-	1,185,814	3,482,343,491
Total Non-current	**1,168,118**	**3,430,378,020**	**2,407,699**	**7,070,619,073**
Total financial debt	**1,286,520**	**3,778,086,104**	**2,832,989**	**8,319,557,144**

a) Decrease in short-term financial debt with credit institutions for US$65,132 (COP$191,271,720) due to i) debt amortizations of US$87,106 (COP$255,801,395), compensated by ii) long-term to short-term reclassifications of US$24,906 (COP$73,140,440), and iii) decrease of US$2,932 (COP$8,610,765) associated with exchange rate differences and others.

Note 12 - Financial Obligation and Other Financial Obligations (continued)

b) Decrease in long-term financial debt with credit institutions and bonds for US$59,262 (COP$174,034,661) due to i) decrease of US$30,951 (COP$90,894,221) associated with exchange rate differences and others; ii) long-term to short-term reclassifications of US$24,906 (COP$73,140,440) and; iii) debt amortizations by US$3,405 (COP$10,000,000).

Senior bond

	At September 30,		At June 30,	
	2017			
Senior Bond	**(in *thousands of* US$)**	**(in *thousands of* COP$)**	**(in *thousands of* US$)**	**(in *thousands of* COP$)**
Face value	750,000	2,202,502,500	779,053	2,287,822,500
Transaction of cost	(1,799)	(5,284,123)	(1,888)	(5,543,593)
Total Senior Bond	**748,201**	**2,197,218,377**	**777,165**	**2,282,278,907**

The net variation in long-term bonds was US$28,965 (COP$85,060,530), associated with exchange rate revaluation of 3.7%, The bonds nominal value is shown net of the issuance cost.

c) The liability was paid in full in September with the proceeds of the capital increase for such purpose.

d) Increase in the short-term valuation of derivatives of US$1,546 (COP$4,541,081), mainly explained by i) a downward movement on the forward curve which affects negatively the NDF interest valuation US$2,412 (COP$7,081,096) and; ii) decrease in Debt Value Adjustment provision affecting positively the financial obligation in US$865 (COP$2,540,015). Increase in the long-term valuation of derivatives of US$1,546 (COP$16,137,098), associated with derivatives portfolio rebalancing due to the mandatory early termination clause incorporated in some of the CCS and IRS agreements.

Hedging Instruments

The Company manages exchange rate and interest rate risk through derivative financial instruments in order to reduce exposure to fluctuations of its receivables and payables to third parties (CAPEX and OPEX), future cash flows in foreign currencies and its financial liabilities denominated in US dollars and euros, also linked to variable interest rates such as Libor and IBR through Non Delivery Forward (NDF), Cross Currency Interest Rate Swap (CCIRS), FX Options and Interest Rate Swap (IRS) operations, these operations are valued at market prices at the end of each period.

Total mark to market valuation decrease by 111% mainly explained by Cross Currency Interest Rate Swap (CCIRS) expiration and replaced by Non Delivery Forwards (NDF), decreasing exchange rate valuation, in addition, explained by the variation in the interest rate valuation due to mandatory unwinds of coupon only Cross Currency Interest Rate Swap (CCIRS) and Interest Rate Swap (IRS) instruments simultaneously replaced by similar instruments at mark to market prices.

Note 12 - Financial Obligation and Other Financial Obligations (continued)

The net derivatives position according to its underlying obligations, are:

	At September 30,		At June 30,	
	2017			
	(in *thousands* of US$)	(in *thousands* of COP$)	(in *thousands* of US$)	(in *thousands* of COP$)
Breakdown by Term				
Short term				
Mark to market – exchange rate effect for financial operations(1)	238	699,241	139,831	410,635,457
Mark to market – exchange rate effect for commercial operations	201	589,929	4,756	13,967,218
Mark to market – interest rate effect	(18,166)	(53,346,905)	24,584	72,195,811
CVA/DVA(3)	892	2,620,317	98	287,504
Total short term, net (Note 4 and 12) (2)	**(16,835)**	**(49,437,418)**	**169,269**	**497,085,990**
Long term				
Mark to market – Exchange rate effect for financial operations(1)	4,083	11,993,731	6,674	19,600,053
Mark to market – Interest rate effect	(6,182)	(18,153,691)	(687)	(2,016,593)
Total long term, net (Note 4 and 12) (2)	**(2,099)**	**(6,159,960)**	**5,987**	**17,583,460**
Total mark to market	**(18,934)**	**(55,597,378)**	**175,256**	**514,669,450**
Breakdown by Effect				
Exchange rate effect				
Exchange rate effect for financial operations (1)	4,321	12,692,972	146,505	430,235,510
Exchange rate effect for commercial operations	201	589,929	4,756	13,967,218
Total exchange rate effect	**4,522**	**13,282,901**	**151,261**	**444,202,728**
Total Interest rate effect	(24,348)	(71,500,597)	23,897	70,179,218
Total CVA/DVA (3)	892	2,620,318	98	287,504
Total mark to market	**(18,934)**	**(55,597,378)**	**175,256**	**514,669,450**

(1) Corresponds to the exchange rate of derivatives hedging financial underlying items, values to be considered to calculate the Covenant Consolidated Net Leverage Ratio stated in the 2022 Senior Bond.
(2) Corresponds to the net position, Note 12 and 4 - Hedging instruments.
(3) Credit Valuation Adjustment (CVA) / Debit Valuation Adjustment (DVA).

Note 13 – Suppliers and Accounts Payable

The balance of suppliers and accounts payable is the following:

	At September 30,		At June 30,	
	2017			
	(in *thousands* of US$)	(in *thousands* of COP$)	(in *thousands* of US$)	(in *thousands* of COP$)
Current:				
Suppliers	240,710	706,887,244	251,240	737,808,887
Capital expenditures	100,933	296,406,642	72,770	213,700,162
Shareholders, related parties and foreign associated companies	65,243	191,597,387	63,258	185,768,034
Labor obligations	6,362	18,683,181	4,805	14,110,608
Others	1,192	3,498,302	722	2,121,355
	414,440	**1,217,072,756**	**392,795**	**1,153,509,046**
Non-current:				
Debt with public administrations (spectrum)	58,110	170,648,456	58,948	173,110,085
Deposits received from clients and others	10,339	30,362,644	10,245	30,086,593
	68,449	**201,011,100**	**69,193**	**203,196,678**
	482,889	**1,418,083,856**	**461,988**	**1,356,705,724**

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Note 14 – Provisions

Current provisions increased by US$5,104 (COP$14,988,348), or 10%, main variations are explained below:

a) Increase in provisions for labor obligations of US$2,664 (COP$7,823,605).
b) Net increase of fiscal provisions by 6.5% US$2,440 (COP $ 7,164,743) mainly due to provision for Industry and Commerce Tax record of third quarter by US$1,464 (COP$4,299,857) and for permits for the use of the spectrum (microwave) net record of royalties by US$1,504 (COP$4,417,466). Total increase was offset by the reduction of provision for Consumption Tax by US$529 (COP$1,552,581).

Note 15 – Shareholder´s Equity, Net

Authorized, subscribed and paid capital at September 30 and June 30 of 2017, is presented as follows:

Share Capital

	Balance at	
	September 30,	June 30,
Authorized capital	$ 1,454,870,740	$ 1,454,870,740
Subscribed and paid capital	3,410,059	1,454,871
Number of outstanding shares	3.410.059.291	1,454,870,740
Nominal value (in pesos)	1	1

The equity shares at September 30 and June 30 of 2017, as follows:

	September 30,		June 30,	
Shareholders	Number of shares	Percentage %	Number of shares	Percentage %
Telefónica Latinoamérica Holding, S.L.	1,756,837,596	51.5192683	437,085,325	30.0428976
The Nation – Ministry of Finance and Public Credit	1,108,269,271	32.5000000	472,832,991	32.5000000
Latin America Cellular Holdings S.L.	275,602,636	8.0820482	275,602,636	18.9434448
Telefonica S.A.	269,339,586	7.8983843	269,339,586	18.5129564
Radio Televisión Nacional de Colombia-RTVC	10,000	0.0002933	10,000	0.0006873
Canal Regional de Televisión Ltda. - TEVEANDINA	200	0.0000059	200	0.0000137
Central de Inversiones S.A.-CISA	1	0.0000000	1	0.0000001
Terra Networks Colombia S.A.S	1	0.0000000	1	0.0000001
	3,410,059,291	**100.0000000%**	**1,454,870,740**	**100.000000%**

In the General Shareholders Assembly, held on August 28 and 29, 2017 and by means of Act No.60, the Company exercised its legal and statutory powers and, by voting in favor of 100% of the shares subscribed, authorized the issuance of 1,955,188,551 shares in reserves, in the terms determined in Board of Directors, in favor of the Nation - Ministry of Finance and Public Credit and Telefónica Group shareholders according to their shareholding and according to each of the events that generated them:

Shares' Placement Procedure	By infrastructure reversion arbitration award	For prepayment of the Parapat Agreement
Number of issued shares	500,317,811	1,454,870,740
Par value of issuance	500,317,811	1,454,870,740
Par value per share	1.00	1.00
Issuance premium value	1.650.511.682.189	4.799.511.627.456
Premium value per share	3,298.92648544686	3,298.92649257349
Total issuance value	1,651,012,000,000	4,800,966,498,196

Note 15 – Shareholder´s Equity, Net (Continued)

The Telefónica Group and the Government of Colombia subscribed the capital increase pro rata to their respective shareholding in Colombia Telecomunicaciones S.A. ESP. Telefónica Group contribution was made in cash (67.5%), and the Ministry of Finance assumed 32.5% of the liabilities intended to be canceled with the proceeds of the capitalization --the PARAPAT and the arbitral award regarding the reversions of infrastructure.

Note 16 – Operating Revenue

The following table sets forth the principal components of our revenues for the nine-month period ended September 30, 2017 and 2016.

	Period from January 1 to September 30,				Variation
	2017		2016		Percentage
	(in *thousands of* US$)	(in *thousands of* COP$)	(in *thousands of* US$)	(in *thousands of* COP$)	%
Mobile Operation					
Mobile data transmission-connectivity	336,875	989,291,374	239,342	702,867,078	40.8%
Monthly mobile voice fees and time on air	222,952	654,736,703	277,052	813,609,461	(19.5%)
Sales of mobile equipment	115,831	340,157,837	94,547	277,652,454	22.5%
Interconnection and roaming	38,156	112,051,137	57,349	168,414,853	(33.5%)
Carrier services – MVNO(1)	22,982	67,489,099	31,183	91,574,146	(26.3%)
Added value services(2)	25,711	75,506,172	28,077	82,032,226	(8.0%)
Mobile Operation Revenues	**762,507**	**2,239,232,322**	**727,405**	**2,136,150,105**	4.8%
Fixed Operation					
Data transmission services	193,295	567,644,315	181,523	533,072,375	6.5%
Fixed telephony and long distance	139,028	408,279,747	153,353	450,348,265	(9.3%)
Satellite television services	72,842	213,912,294	65,225	191,544,143	11.7%
IT and new services (3)	47,877	140,598,470	72,444	212,743,329	(33.9%)
Sales of equipment	584	1,715,159	730	2,142,773	(20.0%)
Fixed Operation Revenues	**453,626**	**1,332,149,985**	473,275	**1,389,850,885**	(4.2%)
Operating Income	**1,216,133**	**3,571,382,307**	**1,200,680**	**3,526,000,990**	1.3%
Other operation income (4)	**28,160**	**82,696,864**	**29,830**	**87,600,090**	(5.6%)
Total Operating Revenue	**1,244,293**	**3,654,079,171**	**1,230,510**	**3,613,601,080**	1.1%

(1) Includes services provided to the mobile virtual network operator Virgin Mobile.
(2) Includes applications downloads, text messages, collection for reconnections, subscription of *Preferidos* and spaces in communication channels for advertisers.
(3) Includes consulting project development services, management of applications, equipment and communication infrastructures and security management.
(4) Includes, among others, Government Grants, commercial support, rental of physical spaces and compensation for breach of contract.

Operating revenue reached US$1,216,133 (COP$3,571,382,307), a 1.3% year-on-year increase. Slow growth rate is explained by regulation changes introduced in January 2017 and one-off projects in 2016; excluding these effects revenues would have grown 5.9%. By the other hand, the operating revenues positive trend was mainly driven by the mobile data business (40.8% year-on-year and 2.1% quarter-on-quarter), sales of mobile equipment (22.5% year-on-year) and satellite television (11.7% year-on-year) which offset lower revenues from other mobile services and other fixed services.

Mobile revenues reached US$762,507 (COP$2,239,232,322) at the end of the third quarter of 2017 a 4.8% year-on-year increase despite of the decrease of interconnection, roaming and MVNOs revenues due to regulatory changes as reduction of mobile termination rates introduced from January 1st, 2017, roaming voice and data rates decreased from February 23, 2017, and mandatory discounts scheme of MVNO-Host termination rates which resulted in rates reductions from February 1st, 2017. Therefore, excluding regulatory effects revenues would have grown 8.4% year on year.

Note 16 – Operating Revenue (Continued)

Growth in mobile revenue is mainly boosted by the increase in the postpaid B2C (Business to Customer) revenues by 11.0% drove by commercial activity growth of 8.1% year-on-year (+3.0% qoq) with stable ARPU and controlled churn rate. Additionally, prepaid revenues also increased by 9.0% year on year (6% qoq) due to high acceptance of commercial offering *Todo en Uno* and newest plan *Prepagada*, which has driven a change in the dynamics of the product increasing subscribers' base by 3.8% year on year (3.0% qoq) and outgoing ARPU by 4.3% year on year.

Fixed business revenues amounted to US$453,626 (COP$1,332,149,985) at the end of the third quarter, decreasing 4.2% year-on-year (2.3% quarter-on-quarter) mainly explained by one-off project (Renata), which revenue was recorded in the first semester of 2016. Excluding Renata impact, fixed revenues would have grown 1.9%. In spite of the total fixed revenues decrease, the income from satellite television and broadband are offsetting this impact and the fixed business continued to successfully implement the bundling strategy increasing commercial activity.

A summary of the main variations in ***revenues from mobile services*** is presented below:

a) Revenues from ***mobile data transmission (connectivity)*** increased by 40.8% year-on-year (2.1% quarter-on-quarter) from US$239,342 (COP$702,867,078) at the end of third quarter of 2016 to US$336,875 (COP$989,291,374) at the end of third quarter of 2017, mainly explain by the year-on-year increase of data traffic of 64% excluding MVNO traffic. The Company's strategy is focused on data services growth through the deployment of the 4G network.

b) ***Monthly mobile voice fees and time on air***, commercial activity had a highlighted performance showing a year-on-year subscribers' base increase of 4.7% (2.7% quarter-on-quarter); in addition, third quarter revenues showed a positive trend for the first time over the past eight quarters. Despite subscriber's base growth and positive rate trend (qoq), year on year revenues decreased by 19.5% mainly explained by voice to data substitution effect.

c) Revenues from **sales of equipment** increased by 22.5% year-on-year, to US$115,831 (COP$340,157,837) at the end of the third quarter 2017, mainly due to the i) segmentation of the sale price of terminals according to customer type ii) tax incentives on equipment of less than US$243 (COP$700,898) that are exempt from VAT after the tax reform of December, 2016, and iii) the implementation of sale campaigns, in postpaid during the first semester in an environment driven by low subsidies; as well as in prepaid segment in which gross-adds with low cost terminals were leveraged by prepaid plan offering *Prepagada*.

d) The **interconnection and roaming** revenues showed an increase quarter on quarter of 8.6% revenues mainly due to mobile to mobile traffic increase of 4.0%. Year-on-year trend still negative, decreasing revenues by 33.5% from US$57,349 (COP$168,414,853) at the end of the third quarter 2016 to US$38,156 (COP$112,051,137) at the end of the third quarter 2017 due to the reduction by 42.2% in mobile termination rates and the reduction by 30% and 60% of roaming voice and data rates respectively. Excluding these effects, interconnection and roaming revenues would have increased 8.3% due to incoming traffic growth year-on-year by 15.3% (+4.2% quarter-on-quarter).

e) ***Carrier services (MVNO)***, in 2017 a regulatory change was introduced modifying MVNO-Host Operator contractual relation which resulted on tariff reductions as of September 2017. Consequently, revenues decreased by 26.3% year-on-year (2.6% quarter-on-quarter) from US$31,183 (COP$91,574,146) to US$22,982 (COP$67,489,099) at the end of the third quarter of 2016 and third quarter of 2017 respectively.

f) Revenues from ***value added services*** decreased by 8.4% year-on-year from US$28,077 (COP$82,452,662) at the end of the third quarter of 2016 to US$25,711 (COP$75,506,172) at the end of the third quarter 2017 mainly due to the replacement of VASs and SMS for new applications through Data Services (Connectivity).

Note 16 – Operating Revenue (Continued)

A summary of the main variations in the revenues generated by the ***fixed business*** is presented as follows:

a) Revenues from ***data transmission services*** increased by 6.5% year-on-year (1.2% quarter-on-quarter), from US$181,523 (COP$533,072,375) at the end of the third quarter of 2016 to US$193,295 (COP$567,644,315) at the end of the third quarter of 2017, boosted by B2C (business to customer) mainly explained by broadband internet services revenues increase by 11.0% year-on-year due to ARPU growth of 14.0% year-on-year (1.0% quarter-on-quarter), amounting US$12.47 (COP$36,628) at the end of the third quarter of 2017, result of the launch of a new commercial offer focused on the packaging of products with additional services (Movistar Play) and migration to higher speeds through VDSL technology increasing quality and customer loyalty.

b) Revenues from ***fixed telephony and long distance*** decreased by 9.3% year-on-year (8.3% quarter-on-quarter) from US$153,353 (COP$450,348,265) in the third quarter of 2016 to US$ 139,028 (COP$408,279,747) as of September 2017, mainly due to a year-on-year decrease of subscribers' base by 5.0% (0.9% quarter-on-quarter) result of the product life cycle, fixed to mobile substitution effect.

c) Revenues from ***Satellite television services*** increased by 11.7%, or US$7,617 (COP$22,368,151) year-on-year due to subscribers and ARPU year-on-year growth of 8.2% and stable subscribers' base. Increased quality of the subscribers' base benefited ARPU amounting to US$ 15.30 (COP$44,932) at the end of third quarter of 2017. Year-on-year revenues growth is the result of the broader portfolio, including HD channels, and premium contents improvement.

d) Revenues from ***IT and Integral Solutions*** decreased by 33.9% or US$24,566 (COP$72,144,746) year-on-year mainly explained by a one-off project (*Renata),* which revenue was recorded in the first semester of 2016). Quarter-on-quarter revenues grew 1.0%. Excluding this impact revenue from IT and Integral Solutions would have increased by 8.3%.

Note 17 – Operating Cost and Expenses

The following table sets forth the principal components of our operating cost and expenses for the nine-month period ended September 30, 2017 and 2016:

	Period from January 1 to September 30,				Variation
	2017		2016		Percentage
	(in *thousands* of US$)	(in *thousands* of COP$)	(in *thousands* of US$)	(in *thousands* of COP$)	%
Cost of terminals and accessories	135,842	398,924,168	139,900	410,841,191	(2.9%)
Media rental and other network infrastructures	95,288	279,830,464	90,930	267,032,092	4.8%
Labor cost	91,003	267,246,430	87,382	256,612,699	4.1%
Maintenance	69,856	205,145,029	68,833	202,138,579	1.5%
Interconnection and roaming	61,350	180,164,872	71,845	210,985,963	(14.6%)
Other costs and operation expenses (1)	68,115	200,031,717	68,506	201,179,142	(0.6%)
Taxes and compensations	66,083	194,063,759	61,518	180,659,024	7.4%
Sales commissions	57,885	169,989,032	55,076	161,739,273	5.1%
Contents suppliers	40,081	117,704,849	37,317	109,588,804	7.4%
Energy	38,557	113,228,359	39,361	115,589,527	(2.0%)
Computer services	38,940	114,353,579	38,440	112,885,404	1.3%
Advertising expenses(3)	36,602	107,486,596	34,876	102,419,133	4.9%
Services (customer services)	20,174	59,243,560	20,066	58,928,484	0.5%
Renting and third parties' activities	20,572	60,413,491	20,444	60,038,547	0.6%
Impairment, net of recovery	10,039	29,482,072	11,394	33,460,017	(11.9%)
Other non-recurrent costs (2)	3,271	9,605,167	8,008	23,512,649	(59.1%)
Total cost and expenses	**853,658**	**2,506,913,144**	**853,896**	**2,507,610,528**	(0.03%)

Note 17 – Operating Cost and Expenses (Continued)

(1) Includes surveillance services, collection commission, administrative rentals, insurance, transport, billing and printing services, collection management, among others.
(2) Includes legal contingencies, contributions and losses on disposal of fixed assets.
(3) Includes expenses of advertising campaigns and brand use.

Costs and expenses remained flat in comparison with previous year mainly due to the positive results of costs efficiency projects continually being developed.

A summary of the main variations in ***cost and expenses*** is presented below:

a) Cost ***of terminals and accessories*** decreased 2.9% year-on-year, but steady quarter-on-quarter, from US$139,900 (COP$410,841,191) to US$135,842 (COP$398,924,168) at the end of the third quarter of 2017, associated to one-off project (Renata), which was recorded in the first semester of 2016. Excluding Renata equipment impact, cost of terminals and accessories would have grown 10.1%, directly associated to the increase in equipment sales.

b) Costs of ***media* rentals and other network infrastructures** increased by 4.8% year-on-year (0.5% quarter-on-quarter) from US$90,930 (COP267,032,092) US$95,288 (COP$ 279,830,464) at the end of the third quarter of 2017 mainly due to the expansion of LTE technology network nationwide.

c) The ***labor costs*** increased by 4.1% year-on-year (-1.6% quarter-on-quarter) from US$87,382 (COP$256,612,699) to US$91,003 (COP$267,246,430) due to wage adjustments that took place during second quarter 2017.

d) ***Interconnection and roaming*** costs decreased by 14.6% year-on-year (steady quarter-on-quarter) despite of the increase in traffic by 15% year on year, mainly due to the reduction in the average price per minute paid to the operators.

e) The ***commissions*** increased by 5.1% year-on-year from US$55,076 (COP$161,739,273) to US$57,885 (COP$ 169,989,032) mainly due to higher commercial activity during the third quarter of 2017 compared with 2016. During the third quarter of 2017 fixed gross adds increased by 7.6% and mobile gross adds increased by 8.9% (compared to the first nine months of 2016.

f) ***Contents suppliers*** increased by 7.4% year-on-year (steady quarter-on-quarter) from US$37,317 (COP$109,588,804) to US$40,081 (COP$117,704,849) mainly due to the TV subscriber's growth (1.4% year-on-year).

g) ***Taxes and compensations*** increased by 7.4% year-on-year (3.6% quarter-on-quarter) or US$4,565 (COP$13,404,735) mainly explained by higher royalties and remunerations expenses and an increased in municipalities taxes such as public lighting.

Note 18 – Depreciation and Amortization

The following table sets forth the principal components of our depreciation and amortization for the nine-month period ended September 30, 2017 and 2016:

	Period from January 1 to September 30,			
	2017		2016	
	(in *thousands of* US$)	(in *thousands of* COP$)	(in *thousands of* US$)	(in *thousands of* COP$)
Depreciation of property, plant and equipment	(203,665)	(598,098,575)	(186,272)	(547,018,287)
Amortization of intangibles assets (a)	(75,178)	(220,772,198)	(62,320)	(183,013,028)
Depreciation and amortization	**(278,843)**	**(818,870,773)**	**(248,592)**	**(730,031,315)**

Amortization expense increased by 20.6% year on year mainly due to the accrual of the arbitral award as an additional value of the intangible asset associated with. The decision of the arbitration proceedings in connection with the reversion of infrastructure of initial concession agreements (1994-2014) was issued in August, 2017. The award established the payment to be in cash rather than returning the physical assets in order to ensure proper continuity in providing the telecommunications services. In addition, the subject matter of the proceedings was in connection with the radioelectric spectrum license renewed under the Resolution 0597 of March 2, 2014, therefore the award of US$ 562,205 (COP$ 1,651,012,000) was accrued as an additional value of it. increasing the amortization expense year on year.

Note 19 – Financial Result, net

The net financial result increased by 1.2%, from US$215,236 (COP$632,077,625) at the end of the third quarter of 2016 to US$217,857 (COP$639,775,555) as of September 30, of 2017:

	Period from January 1 to September 30,			
	2017		2016	
	(in *thousands of* US$)	(in *thousands* of COP$)	(in *thousands of* US$)	(in *thousands of* COP$)
Debt interest expense (a)	(66,948)	(196,605,969)	(64,179)	(188,473,151)
Hedging financial expenses (b)	(26,948)	(79,136,187)	(16,294)	(47,848,930)
Others (c)	(3,072)	(9,022,151)	(1,093)	(3,210,334)
Exchange rate difference	(1,553)	(4,560,038)	318	933,603
	(98,521)	**(289,324,345)**	**(81,248)**	**(238,598,812)**
Parapat interest expense (d)	(119,336)	(350,451,210)	(133,988)	(393,478,813)
Financial result, Net	**(217,857)**	**(639,775,555)**	**(215,236)**	**(632,077,625)**

a) Increase in net interest expense by US$2,769 (COP$8,132,818) mainly explain by i) additional interest expense of US$10,753 (COP$31,578,039) in connection with new debt acquired during the last twelve months, and ii) offset by the decline in senior bond interest expense of US$7,943 (COP$23,325,838) associated with bond interest gross up elimination starting from January of 2017 and a positive impact of the exchange rate revaluation during the period, and other effects of US$41 (COP$ 119,383).

b) Increase in hedging financial expense of US$10,654(COP$31,287,257) mainly explained by i) the downward movement of the market NDF curve, affecting interest rate valuation of outstanding NDF portfolio at the end of the period; ii) the increase in the USD Libor rate used to accrue the USD 750 Million Libor IRS (Interest Rate Swap) increasing by 52bps in average, from 0.629% in 2016 to 1.150 % in 2017, and, iii) the effect of the average exchange rate revaluation during the period affecting negatively financial expense of Coupon Only Cross Currency Interest Rate Swap (CCIRS).

Note 19 – Financial Result, net (continued)

c) Increase of US$1,979 (COP$5,811,817) in other financial expenses, mainly explained by: i) increase in tax on financial movements by US$4,478 (COP $13,150,439) in connection with the prepay of Parapat liability ii) offset by a decline of spectrum obligation expense (indexation of the liability) by US$1,172 (COP$3,441,777) due to the drop-off in the interest rate used to accrue the financial expense, as well as the decrease in outstanding balance of the obligation; iii) increase in financial income by US$346 (COP$1,015,806) and iv) decrease in other financial expenses by US$981 (COP$2,881,039).

d) Net decrease in Parapat interest expense by US$14,652 (COP$43,027,603) explained by lower customer price index used to accrue interest expense reducing expense by US$17,345 (COP$50,936,696) and offset by US$2,693 (COP$7,909,093) associated to interest on arrears with regard to waived installments due on April, June and August..

Note 20 – Wealth tax, income and deferred tax

As of September 30, 2017, tax expense totalizes US$87,643 (COP$257,378,766) according with the following detail:

a) Expenditure for wealth tax of US$1,736 (COP$5,098,107).

b) Provision for miscellaneous income tax of US$8.4 (COP$24,536)

c) Deferred tax expense ofUS$85,899 (COP$252,256,123) explained by:

   i. Use (expense) of US$66,507 (COP$195,307,982) of deferred tax assets due to temporary differences related to the PARAPAT, estimated liabilities and provisions.

   ii. Use (expense) of US$36,732 (COP$107,871,094) due to the prepay of Parapat liability which involves the reversal of the deductible temporary difference at the end of third quarter and the recognition of a deferred tax asset in connection with future tax losses provided that a reasonable expectation exists such tax losses might be used to offset the income tax expense over the next six years according to the strategic plan of the Company.

   iii. Net recovery of deferred tax liabilities of US$17,340 (COP$50,922,953) mainly explain by temporary differences in connection with hedges valuation.

Note 21 – Self withholdings

Income tax expense includes the current tax expense and the deferred tax, Colombian companies under Law 1819 of 2016, are subject to the corporate income tax for the year 2017 at a rate of 34% and for the year 2018 and following at a rate of 33% and establishes a surcharge to the income tax which is regressive and temporary, for the year 2017 of 6.0% and for the year 2018 of 4.0%, applying it latter to the taxable bases of US$4,277 (COP$800,000) onwards, leaving the total tax rate as follows; 2017 of 40%, 2018 of 37% and 2019 and following of 33%.

In addition to the aforementioned, Colombian tax regulations establish that the basis for calculating said tax is established on the higher net taxable income of a company and its presumptive income. Under the applicable regulations, the presumptive income is equivalent to 3,5% of the fiscal net worth of the company of the previous year, however, pursuant to article 73 of Law 1341 and article 24 of Law 142 of 1994, the Company, being cataloged as a Utilities Company, has not determined, nor paid the income tax based on presumptive income.

Regardless of the tax expense recognized, the tax legislation provides that companies are obliged monthly to pay the income tax in advance, through self-withholdings that are calculated on revenues basis. The corporate income tax return includes the annual accrual of self-withholdings paid by the Company; the clearing and/or refund process of the balance in favor of the Tax Return is carried out after the approval of the Tax Return by the tax authority. The balance in favor can be used to offset tax payments, excluding the wealth tax payment.

Note 22 – Contingencies

The Company classifies legal contingencies according to the likelihood of probable, possible or remote loss and for the purposes of quantification, determines the amounts to be accrued based on the reports of its legal advisors, only probable contingencies are recorded as provisions.

As of September 30th, 2017, the processes under way and reported as probable contingencies and therefore already provisioned, show significant variations compared to the second quarter, decreasing by 13.0% from US$10,823 (COP$31,784,556) as of June 30th, 2017 to US$9,433 (COP$27,702,762) as of September 30th, 2017. Decline is mainly explained by the payment of fines in connection with quality indicators imposed by the Superintendency of Industry and Commerce and the Ministry of Information Technologies and Communications of Colombia.

In addition, the Company has litigation qualified as possible, which are currently pending before judicial, administrative and arbitral bodies. These contingencies have not been provisioned. During the third quarter of 2017, economic claims slightly increased by 0.5%, from as of June 30th 2017 to US$59,486 (COP$174,689,497) as of September 30th, 2017.

Note 23 – Other Financial and Operating Information

a. EBITDA *(a)*

	Period from January 1 to September 30,				Variation
	2017		2016		Percentage
	(in *thousands of* US$)	(in *thousands* of COP$)	(in *thousands of* US$)	(in *thousands* of COP$)	%
Net loss	(193,708)	(568,859,067)	(138,157)	(405,720,343)	
Plus:					
Depreciation and amortization	278,843	818,870,773	248,592	730,031,315	12.2%
Financial expenses, net	217,857	639,775,555	215,236	632,077,625	1.2%
Income tax (b)	87,643	257,378,766	50,943	149,601,955	72.0%
EBITDA	**390,635**	**1,147,166,027**	**376,614**	**1,105,990,552**	3.7%

(a) EBITDA means: Net loss before depreciation and amortization; financial expenses, net and income tax,
(b) Include wealth tax, income tax and deferred tax

b. EBITDA Margin

	Period from January 1 to September 30,	
	2017	2016
EBITDA margin *(a)*	32.1%	31.4%

(a) Represents EBITDA divided by net revenues

c. Net Debt to EBITDA Ratio (Senior notes covenant)

Due to the capitalization and further payment of the PARAPAT obligation, the financial leverage of Net Debt to EBITDA is 3.11x, in compliance with the Net Debt to EBITDA ratio of 3.75x defined under the Covenant-*Limitation on indebtedness* of the Senior Bond. In addition, the subsidiaries newly acquired by means of Parapat prepay are also in compliance with the terms of the covenant.

Note 23 – Other Financial and Operating Information (continued)

c. Net Debt to EBITDA Ratio (Senior notes covenant) (continued)

	12-month period ended to, September 30, 2017
Net Debt to EBITDA Ratio [a]	3.11

(a) The calculation detail in presented as follows:

	At September 30, 2017	
	(in millions of U.S) (1)	(in millions of COP$)
Financial Obligations at Short-term (2)	**93**	**273,665**
Financial Institutions	92	271,447
Renting	1	2,218
Financial Obligations at Long Term	**1,164**	**3,417,508**
Financial Institutions	413	1,211,862
Renting	1	3,144
Bonds (3)	750	2,202,503
Hybrid Bond (4)	**435**	**1,278,425**
Total Debt (5)	**1,692**	**4,969,598**
Valuation of derivatives for Exchange Rate Differential (6)	(4)	(12,693)
Cash and Cash Equivalents	(54)	(158,337)
Total Net Debt	**1,634**	**4,798,568**
EBITDA Last twelve months (7)	525	1,541,935
Total Financial Debt over EBITDA		**3.11**

(1) Solely for the convenience of the reader, Colombian pesos amounts for the twelve-month period ended September 30, 2017 have been translated into U.S. dollars at the exchange rate as of September 30, 2017 of COP$2,936.67 to U.S.$1,00.
(2) The balance of short-term obligations excludes the interest payables.
(3) Considers the nominal of the issuance, valued at the exchange rate of the closing of the month of the ratio calculation; it does not include the value of the issuance fees.
(4) The Hybrid Bond under the Offering Memorandum of the issuance of the Senior Bond debt is considered replacement of debt, for that reason is included as financial debt, though it is recorded in Equity.
(5) The total financial debt includes the principal financial obligations with credit entities and bond issues; includes vehicle renting that is considered as financial debt under the IFRS regulations.
(6) Includes only the exchange rate valuation of derivatives instruments hedging financial underlying items.
(7) It is the EBITDA calculated under the IFRS regulation.

Note 23 – Other Financial and Operating Information (continued)

d. Accesses

	2016			2017		
Figures in thousands	**June 30,**	**September 30,**	**December 31,**	**March 31,**	**June 30,**	**September 30,**
Final Clients Accesses	**16,161**	**16,503**	**16,573**	**16,471**	**16,611**	**16,965**
Fixed Telephony *(1)*	1,403	1,389	1,353	1,353	1,331	1,320
Internet and Data *(2)*	1,012	1,025	977	990	982	985
Broadband (3)	1,003	1,003	964	977	969	971
Pay TV	520	532	517	526	529	530
Mobile *(4)*	13,226	13,557	13,725	13,603	13,769	14,130
Prepaid	9,730	10,019	10,137	9,974	10,097	10,401
Postpaid	3,496	3,538	3,588	3,629	3,672	3,729
Wholesale	1	1	1	1	1	1
Total Accesses	**16,162**	**16,504**	**16,574**	**16,472**	**16,611**	**16,965**

(1) Includes fixed wireless and VoIP accesses,
(2) Includes Narrowband accesses,
(3) Includes Internet Dedicated Accesses,
(4) Includes prepaid and postpaid voice and data accesses,

e. Average Revenues per User –ARPU

	2016			2017		
Figures in pesos	**June 30,**	**September 30,**	**December 31,**	**March 31,**	**June 30,**	**September 30,**
Fixed Telephony (1)	27,386	27,730	27,641	27,910	27,087	26,673
Broadband (2)	31,141	32,130	32,629	35,301	36,280	36,628
Pay TV	40,729	41,511	41,813	45,343	45,238	44,932
Total Mobile (3)	14,939	15,010	15,020	14,220	14,144	14,123
Prepaid	4,017	4,045	4,084	3,537	3,511	3,553
Postpaid	45,501	45,697	45,686	45,727	45,142	43,424

(1) Includes only monthly fixed fees
(2) Excludes revenues from data and capacity rental
(3) Excludes revenues from MVNO and sales of mobile equipment. Figures presented from June 30, 2016 to September 30, 2017 were restated reflecting only outgoing ARPU.

Note 24 – Subsequent events to the publishing date of these special purpose Interim Financial Statements

Between September 30, 2017, and the publishing date of these special purpose Interim Financial Statements, there is no awareness of events of financial nature or otherwise, that affect or could significantly affect the balances or interpretation thereof.