INTERIM FINANCIAL STATEMENTS

Colombia Telecomunicaciones S.A. ESP

At September 30, 2016 and for the nine-month period ended
September 30, 2016

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	Notes	At September 30,		At June 30,	
		2016			
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		97,157	279,818,874	14,544	41,888,031
Financial assets	*(4)*	190,561	548,830,227	3,912	11,267,908
Trade and other receivables	*(5)*	278,510	802,131,686	266,047	766,237,688
Prepaid expenses	*(6)*	18,606	53,585,941	24,696	71,126,063
Inventories	*(7)*	32,060	92,335,407	36,525	105,195,917
Taxes receivables	*(8)*	73,859	212,719,912	86,302	248,555,633
Total current assets		**690,753**	**1,989,422,047**	**432,026**	**1,244,271,240**
Non-current assets:					
Financial assets	*(4)*	61,128	176,052,881	283,137	815,456,243
Trade and other receivables	*(5)*	12,231	35,225,896	12,027	34,639,129
Prepaid expenses	*(6)*	14,413	41,514,697	13,438	38,701,144
Property, plant and equipment	*(9)*	1,597,486	4,600,887,388	1,569,282	4,519,657,096
Intangibles assets	*(10)*	309,626	891,748,305	310,357	893,851,711
Goodwill		326,089	939,163,377	326,087	939,163,377
Deferred tax assets	*(11)*	385,559	1,110,440,122	416,942	1,200,825,420
Total non-current assets		**2,706,532**	**7,795,032,666**	**2,931,270**	**8,442,294,120**
Total assets		**3,397,285**	**9,784,454,713**	**3,363,296**	**9,686,565,360**
Liabilities					
Current liabilities:					
Financial obligations	*(12)*	142,878	411,501,153	141,067	406,285,336
Other financial obligations - Parapat	*(12)*	175,870	506,519,850	174,480	502,516,373
Suppliers and accounts payable	*(13)*	373,620	1,076,054,348	367,514	1,058,470,414
Current tax payable	*(8)*	55,727	160,499,171	56,886	163,834,856
Deferred liabilities		28,980	83,465,219	28,352	81,657,000
Estimated liabilities and provisions	*(14)*	57,872	166,675,435	55,836	160,812,939
Total current liabilities		**834,947**	**2,404,715,176**	**824,135**	**2,373,576,918**
Non-current liabilities:					
Financial obligations and senior bond	*(12)*	1,263,101	3,637,831,286	1,148,442	3,307,605,129
Other financial obligations – Parapat	*(12)*	1,243,177	3,580,450,297	1,222,591	3,521,160,218
Suppliers and accounts payable	*(13)*	66,023	190,152,809	66,799	192,385,804
Deferred liabilities		7,146	20,577,490	7,975	22,968,736
Estimated liabilities and provisions	*(14)*	19,085	54,966,709	17,007	48,982,749
Deferred tax liabilities	*(11)*	79,662	229,434,194	96,040	276,602,939
Total non-current liabilities		**2,678,194**	**7,713,412,785**	**2,558,854**	**7,369,705,575**
Total liabilities		**3,513,141**	**10,118,127,961**	**3,382,989**	**9,743,282,493**
Shareholders' equity, net	*(15)*	**(115,856)**	**(333,673,248)**	**(19,693)**	**(56,717,133)**
Total liabilities and shareholders' equity		**3,397,285**	**9,784,454,713**	**3,363,296**	**9,686,565,360**

(a) Solely for the convenience of the reader, Colombian pesos amounts at September 30 and June 30, 2016, have been translated into U.S. dollars at the exchange rate formed in the interbank market at on September 30, 2016 of COP$2,880.08 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, 2016 (in *thousands of US$*)[(a)]	2016 (in *thousands of COP$*)	2015 (in *thousands of US$*)[(a)]	2015 (in *thousands of COP$*)
Operating revenue:					
Sales and provision of service	*(16)*	1,224,272	3,526,000,990	1,166,298	3,359,030,328
Other operating revenue	*(16)*	30,416	87,600,090	29,074	83,735,511
		1,254,688	**3,613,601,080**	**1,195,372**	**3,442,765,839**
Operation costs and expenses	*(17)*	(870,674)	(2,507,610,528)	(789,173)	(2,272,881,912)
Operating income before depreciation and amortization – OIBDA		**384,014**	**1,105,990,552**	**406,199**	**1,169,883,927**
Depreciation and amortization	*(18)*	(253,476)	(730,031,315)	(251,528)	(724,420,917)
Operating income		**130,538**	**375,959,237**	**154,671**	**445,463,010**
Financial expenses, net	*(19)*	(82,845)	(238,598,812)	(69,628)	(200,533,142)
Interest expenses – Parapat	*(19)*	(136,621)	(393,478,813)	(112,332)	(323,524,398)
Loss before wealth tax		**(88,928)**	**(256,118,388)**	**(27,289)**	**(78,594,530)**
Wealth tax	*(20)*	(4,289)	(12,351,561)	(5,018)	(14,452,861)
Loss before taxes		**(93,217)**	**(268,469,949)**	**(32,307)**	**(93,047,391)**
Income and deferred tax	*(20)*	(47,655)	(137,250,394)	20,957	60,359,237
Net (loss) profit of the period		**(140,872)**	**(405,720,343)**	**(11,350)**	**(32,688,154)**
Other comprehensive income:					
Profit (loss) in hedge valuation, net of tax		4,610	13,276,262	32,975	94,972,003
Revaluation of land and buildings, net of tax		(1,585)	(4,564,668)	(1,458)	(4,199,404)
Other comprehensive income		**3,025**	**8,711,594**	**31,517**	**90,772,599**
Total comprehensive (loss) profit of the period		**(137,847)**	**(397,008,749)**	**(20,167)**	**(58,084,445)**

(a) Solely for the convenience of the reader, Colombian *pesos* amounts for the nine-month period ended September 30, 2016 and September 30, 2015 have been translated into U.S. dollars at the exchange rate formed in the interbank market on September 30, 2016 of COP$2,880.08 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 Shareholders' Equity
Unaudited Figures

	Subscribed and Paid Capital	Additional Paid-in Capital	Statutory Reserves	Other Equity Instruments	Reserves for Revaluation, net of deferred tax	Reserves for Cash Flows Hedge Derivatives	Accumulated Income	Total Equity
				(In thousands of US$) [(a)]				
Balances at March 31st, 2016	**505**	**1,176,796**	**10,437**	**438,547**	**149,422**	**53,317**	**(1,802,123)**	**26,901**
Constitution of legal reserve	_	–	2,099	–	–	–	(2,099)	-
Net loss for the second quarter	–	–	–	–	–	–	(50,984)	(50,984)
Depreciation of reserves by revaluation	_	–	–	–	(776)	–	–	(776)
Hedges valuation, net	–	–	–	–	–	7,038	–	7,038
Deferred tax		–	–	–	311	(2,183)	–	(1,872)
Balances at June 30st, 2016	**505**	**1,176,796**	**12,536**	**438,547**	**148,956**	**58,172**	**(1,855,206)**	**(19,693)**
Equity perpetual instruments' coupon	_	–	–	–	–	–	(25,001)	(25,001)
Net loss for the third quarter							(59,250)	(59,250)
Depreciation of reserves by revaluation	–	–	–	–	(863)	–	–	(863)
Hedges valuation, net	–	–	–	–	–	(18,869)	–	(18,869)
Deferred tax (Note 11)		–	–	–	311	7,509	–	7,820
Balances at September 30st, 2016	**505**	**1,176,796**	**12,536**	**438,547**	**148,404**	**46,812**	**(1,939,457)**	**(115,856)**

(a) Solely for the convenience of the reader, Colombian pesos amounts at September 30 and June 30, 2016 and March 31, 2016 have been translated into U.S. dollars at the exchange rate formed in the interbank market at on September 30, 2016 of COP$2,880.08 to US$1.00.

	Subscribed and paid capital	Additional Paid-in Capital	Statutory Reserves	Other Equity Instruments	Reserves for Revaluation, net of deferred tax	Reserves for Cash Flows Hedge Derivatives	Accumulated Income	Total Equity
				(In thousands of COP$)				
Balances at March 31st, 2016	**1,454,871**	**3,389,266,946**	**30,059,860**	**1,263,049,667**	**430,346,543**	**153,556,300**	**(5,190,257,358)**	**77,476,829**
Constitution of legal reserve	–	–	6,045,752	–	–	–	(6,045,752)	-
Net loss for the second quarter	–	–	–	–	–	–	(146,837,671)	(146,837,671)
Depreciation of reserves by revaluation	–	–	–	–	(2,236,373)	–	–	(2,236,373)
Hedges valuation, net	–	–	–	–	–	20,270,638	–	20,270,638
Deferred tax	–	–	–	–	896,019	(6,286,575)	–	(5,390,556)
Balances at June 30st, 2016	**1,454,871**	**3,389,266,946**	**36,105,612**	**1,263,049,667**	**429,006,189**	**167,540,363**	**(5,343,140,781)**	**(56,717,133)**
Equity perpetual instruments' coupon	–	–	–	–	–	–	(72,005,625)	(72,005,625)
Net loss for the third quarter	–	–	–	–	–	–	(170,646,008)	(170,646,008)
Depreciation of reserves by revaluation	–	–	–	–	(2,485,983)	–	–	(2,485,983)
Hedges valuation, net	–	–	–	–	–	(54,341,713)	–	(54,341,713)
Deferred tax	–	–	–	–	896,019	21,627,195	–	22,523,214
Balances at September 30st, 2016	**1,454,871**	**3,389,266,946**	**36,105,612**	**1,263,049,667**	**427,416,225**	**134,825,845**	**(5,585,792,414)**	**(333,673,248)**

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

	Notes	2016 (in thousands *of US$)* [(a)]	2016 (in thousands *of COP$)*	2015 (in thousands *of US$)* [(a)]	2015 (in thousands *of COP$)*
		Period from January 1 to September 30,			
Cash flows from operating activities					
Cash received from customers		1,315,562	3,788,924,427	1,266,725	3,648,264,757
Cash paid to suppliers and other payables		(882,889)	(2,542,791,965)	(783,115)	(2,255,432,548)
Net interest and other financial expenses paid		(76,433)	(220,132,821)	(66,122)	(190,437,093)
Interest paid to the PARAPAT		(114,432)	(329,574,127)	(93,513)	(269,323,662)
Indirect paid taxes		(50,935)	(146,697,191)	(79,996)	(230,393,790)
Wealth tax		(5,720)	(16,475,234)	(6,691)	(19,270,482)
Self-withholdings on Income Tax and Income tax for equality -CREE	(21)	(43,193)	(124,400,257)	(44,272)	(127,505,932)
Net cash provided by operating activities		**141,960**	**408,852,832**	**193,016**	**555,901,250**
Cash flows from investing activities					
Payments for investments in the plant and equipment and intangible assets		(243,209)	(700,461,151)	(245,674)	(707,559,413)
Collections from temporary financial investments		30,504	87,853,630	3,532	10,172,665
Payments for temporary financial investments		(26,277)	(75,678,776)	(2,270)	(6,536,644)
Net cash used in investing activities		**(238,982)**	**(688,286,297)**	**(244,412)**	**(703,923,392)**
Cash flows from financial activities					
Perpetual equity instruments coupon		(47,650)	(137,235,085)	(22,850)	(65,810,825)
New financial debt		189,313	545,237,394	95,519	275,102,395
Net cash flow from exchange rate hedges		9,121	26,269,828	6,027	17,358,141
Financial debt payments		(58,181)	(167,566,935)	(476,401)	(1,372,074,336)
Issuance of perpetual equity instruments		-	-	438,656	1,263,365,164
Transactions cost of perpetual equity instruments		-	-	(3,268)	(9,411,765)
Net cash provided from financing activities		**92,603**	**266,705,202**	**37,683**	**108,528,774**
Net decrease in cash and cash equivalents during the period		**(4,419)**	**(12,728,263)**	**(13,713)**	**(39,493,368)**
Cash and cash equivalents at January 1,		101,576	292,547,137	27,960	80,526,095
Cash and cash equivalents at September 30,		**97,157**	**279,818,874**	**14,247**	**41,032,727**

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

Balance at January 1,	**101,576**	**292,547,137**	**27,960**	**80,526,095**
Cash on hand and at banks	78,182	225,171,083	18,564	53,464,870
Other cash equivalents	23,394	67,376,054	9,396	27,061,225
Balance at September 30,	**97,157**	**279,818,874**	**14,247**	**41,032,727**
Cash on hand and at banks	96,674	278,427,523	7,236	20,840,194
Other cash equivalents	483	1,391,351	7,011	20,192,533

(a) Solely for the convenience of the reader, Colombian *pesos* amounts for the nine-month period ended September 30, 2016 and September 30, 2015 have been translated into U.S. dollars at the exchange rate formed in the interbank market on September 30, 2016 of COP$2,880.08 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

Notes to Interim Financial Statements

Unaudited Figures

At September 30st, 2016 and for the nine-month period ended September 30, 2016
(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, 2015 ('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 to an understanding of the changes in the Company financial position and performance since the last financial statements.

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.

Basis of Presentation

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, 2015. 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 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. All references herein to "U.S. dollars," or "US$" are to U.S. 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" and in the "Notes to the Interim Financial Statements" and in this document from Colombian pesos into U.S. dollars using the exchange rate formed in the interbank market on September 30, 2016 of COP$2,880.08 to US$1.00. These convenience translations should not be considered representations that any such amounts have been, could have been or could be converted in the future into U.S. 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, estimates 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 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**

We publish our financial statements in COP$. Because a portion of our assets, liabilities, revenues and expenses are denominated in currencies other than the COP$, we are exposed to fluctuations in the values of these currencies against the COP$. 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); also, the net balance sheet positions are taken into account in order to take advantage of natural hedges that are offset directly by avoiding incurring on bid-offer spread costs on hedging operations.

The main financial risk management objectives and policies of the Company at September 30, 2016, and for the nine-month period ended on that date, are consistent with those disclosed in the financial statements at December 31, 2015 and for the year ended on that date.

- **Materiality criteria**

These interim financial statements do not include any information or disclosures that, not requiring presentation due to their qualitative significance, 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.

- **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

Note 2 - Basis of accounting (continued)

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 expense for income tax includes the expense of the current tax and deferred tax. Colombian companies are subject to corporate income tax currently set at a rate of 25.0%. Colombian tax regulations provide that the basis for the calculation of such income tax applicable is the greater of a company's net taxable income and its presumptive income. Under applicable regulations, presumptive income is equivalent to 3.0% of net tax equity (patrimonio líquido fiscal) of the company on the last day of the immediately preceding taxable year. However, according to article 73 of Law 1341 and article 24 of Law 142 of 1994, because we are a public utilities company (Empresa de Servicios Públicos) we have not determined nor paid income tax on a presumptive income basis.

In addition, pursuant to Law 1607 of 2012, we are required to pay the income tax for equality CREE at a rate of 9.0% from 2015 onwards. We are also subject to an annually increasing income tax for equality CREE surcharge of 5.0% in 2015, 6.0% in 2016, 8.0% in 2017 and 9.0% in 2018, applicable to our net taxable income exceeding COP$800 million. The surcharge will be eliminated in 2019. The income tax for equality CREE and the related surcharge are each calculated on the basis of the greater of our taxable income or our presumptive income. Although, as a public utilities company (Empresa de Servicios Públicos), we have not determined nor paid income tax based on our presumptive income, this exemption does not apply to the calculation of the CREE tax.

However, the company has tax credits for accumulated losses and excess of presumptive income of the income tax and the income tax for equality CREE, which will be used to offset the income tax expense. The amount of deferred expenditure is obtained from the analysis of the Financial Position Statement, considering temporary differences, which are reversed in time, between the tax bases of assets and liabilities and their respective book values. The tax rates and tax laws used to compute such amounts are those in effect on the closing date, including the income tax rate, the rate of the income tax for equality CREE and the surtax. At September 30, 2016, there was no significant change in the effective tax rate.

Regardless of the expense recognized, tax regulations provide that companies are forced to pay income taxes in advance (both corporate income tax and income tax for equality CREE) through self-withholdings, which are calculated on the basis of monthly revenues and paid the following month. Once Corporate Income Tax and income tax for equality CREE declaration are submitted and approved by the tax authority, total expense is compensated with paid self-withholdings and balance in favor is returned to the company. Positive balance can be used to compensate other indirect tax payments as valued add tax or 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 on the basis of 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

Note 2 - Basis of accounting (continued)

of conveyance 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.

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 reflect of the trend of the same in recent years.

The discount rates used are determined before taxes and are adjusted by the country-risk rate and corresponding business risk.

When new events take place or changes in existing circumstances indicate 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 indicate that there is a measurable decrease in the estimated future cash flows, as well as 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.

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) Equity Management

As of September 30, 2016 the Company has negative Shareholders' Equity, which under Colombia corporate law could trigger a mandatory dissolution proceeding due to the shareholders' equity representing less than 50% of the share capital. Nevertheless **the existence of such dissolution event would be only verified on the date the general shareholders' meeting approves the audited financial statements for fiscal year 2016.** Under Colombian law, the Company would then have an 18-month period to adopt any necessary measures to increase the shareholders' equity to a level of at least 50% of our subscribed capital stock.

b) Macroeconomic Environment

- **Inflation**

Annual inflation in September was 7.3% LTM, completing two consecutive months of reductions in the consumer price index – CPI -, since the highest inflation for the year reached in July (9.0% LTM). The cumulative inflation for 2016 was reduced to 5.3%, remaining well above the target cap of Banco de la República (4.0%). This is mainly explained by the sharp correction shown by the food component following the recovery of supply, in turn explained by the end of the climatic phenomenon and the truckers' strike. Indeed, food monthly inflation rates were -1.5% MoM and -0.9% MoM in August and September, respectively, thus reducing food inflation to 10.6% YoY from 14.3% in June. In addition inflation in tradable goods has shown a slowdown reaching 7.2% YoY from 7.9% in June and the lowest inflation in this component since March, which reflects the Colombian peso's lower depreciation.

- **Interest rate**

The Board of Directors of Banco de la República decided to raise the interest rate 25 bp in July, standing at 7.8%; subsequently, the entity unanimously chose for stability in rates for two consecutive months, so that the interest rate in the third quarter closed at 7.8%. Despite the upward pressure imposed by the current inflation record, the stability decision has been made based on three main factors, i) the slight decline shown by the annual inflation expectations in the medium term, although they still remain misaligned (above 4.0% YoY to Dec 17); ii) the major correction shown by the current account deficit, which stood at 4.0% of the GDP in the second quarter of 2016 compared to 5.9% of the GDP in the first quarter of 2016; iii) the low growth in the second quarter of 2016 of 2.0% YoY compared to 2.5% YoY in the first quarter of 2016, coupled with the presence of leading indicators for the third quarter of 2016, which predict a further slowdown.

- **Exchange rate**

The average exchange rate in the third quarter was COP$2,948.83 per US$1.00, 1.5% less than that observed in the second quarter (COP$2,993.00 per US$1.00) and 5.6% less than that observed in the first half (COP$3,122.49 per US$1.00). The slight drop in the exchange rate is mainly explained by the stability in the price of crude oil, which showed a slight drop of 1.2%, from US$45.46 a barrel on average in the second quarter of 2016 to US$44.88 in the third quarter.

Note 4 – Financial Assets

The breakdown of the current financial assets is the following:

	At September 30,		At June 30,	
	2016			
	(in *thousands of* US$)	(in *thousands of* COP$)	(in *thousands of* US$)	(in *thousands* of COP$)
Hedging instruments (Note 12) (a)	190,561	548,830,227	3,912	11,267,908
Current financial assets	**190,561**	**548,830,227**	**3,912**	**11,267,908**
Hedging instruments (Note 12) (a)	7,570	21,803,408	225,367	649,076,251
Other equity participations	50,356	145,029,462	50,356	145,029,462
Deposits and guaranteed (b)	3,202	9,220,011	7,414	21,350,530
Non-current financial assets	**61,128**	**176,052,881**	**283,137**	**815,456,243**
Total financial assets	**251,689**	**724,883,108**	**287,049**	**826,724,151**

Financial assets show a decrease of 12.3% or US$35,360 (COP$101,841,043), generated mainly by the reduction in the derivatives portfolio valuation. During the third quarter, a long to short-term reclassification was held of the valuation of the Cross Currecy Swap (CCRS) of principal, Cross Currency Swap of margin and Interest Rate Swap (IRS), covering the debt in the Company's foreign currency business.

(a) The derivatives portfolio valuation in the total financial asset shows a decrease of 13.6% US$31,149 (COP$89,710,523) mainly explained by: i) the decrease in the valuation for the exchange rate of the Swap instruments in US$16,348 (COP$47,083,132) by the revaluation of the exchange rate of 1.3% in the period ii) the decrease in the valuation of the interest rate of US$11,937 (COP$34,378,879) for a displacement of the IRS curve and iii) the decrease by a net effect of US$2,864 (COP$8,248,512) by the variations in the valuation of options and registration of the DVA(1).

(b) Non-current judicial deposits show a decrease of US$4,212 (COP$12,130,519), for the recovery of embargos.

Note 5 – Trade and Other Receivable, net of impairment

Current trade and other receivable increased by 4.7%, or US$12,463 (COP$35,893,998) and non-current increased by 1.7%, or US$204 (COP$586,767) compared to June 30 of 2016. The breakdown is detailed as follows:

	At September 30,		At June 30,	
	2016			
	(in *thousands* U.S. $)	(in *thousands* COP$)	(in *thousands* U.S. $)	(in *thousands* COP$)
Current(1)				
Customers for sale and services provision (2)	181,251	522,016,102	170,729	491,713,285
Commercial agents and distribution channels	5,389	15,520,758	4,785	13,782,972
Portfolio for funded equipment	37,835	108,966,646	39,593	114,030,436
Portfolio with national operators	13,186	37,977,494	12,610	36,317,139
Shareholders, related parties and foreign associated companies (3)	22,242	64,057,445	15,782	45,452,381
Other debtors	15,098	43,487,636	16,564	47,707,232
Foreign debtors	3,403	9,801,283	5,901	16,995,091
Advance payments delivered	106	304,322	83	239,152
	278,510	**802,131,686**	**266,047**	**766,237,688**

	At September 30,		At June 30,	
	2016			
	(in *thousands* U.S. $)	(in *thousands* COP$)	(in *thousands* U.S. $)	(in *thousands* COP$)
Non-current(1)				
Portfolio of grants and contributions (4)	254	732,311	254	732,311
Shareholders, related parties and foreign associated companies (3)	11,977	34,493,585	11,773	33,906,818
	12,231	**35,225,896**	**12,027**	**34,639,129**
	290,741	**837,357,582**	**278,074**	**800,876,817**

(1) The current accounts receivable's accumulated impairment at the end of September of 2016 is US$277,902 (COP$800,379,398) and at June US$274,451 (COP$790,439,900) and for non-current accounts receivable, the impairment at September and June of 2016 is US$59,747 (COP$172,075,817).
(2) Includes residential, business and wholesalers customers whose billing is pending.
(3) Among the main transactions it includes local telephony operations, consulting, interconnection, roaming and data transmission service.
(4) Includes portfolio with for grants and contributions.

Note 6 – Prepaid Expenses

The short-term prepaid expenses decreased by 24.7% or US$6,090 (COP$17,540,122) compared to June 30, 2016, due to the effect of: i) decrease of US$4,876 (COP$14,043,333) mainly due to the amortization of site support services and Wealth Tax, and ii) a decrease of US$1,022 (COP$2,943,847) mainly due to all-risk insurance policies.

Note 7 – Inventories

Inventories at the end of the third quarter decreased by 12.2% or US$4,465 (COP$12,860,510), compared to June 30, 2016.

The variation occurs mainly by the decrease in the category of Mobile phones and accessories by US$3,149 (COP$9,070,117) explained by higher sales of smartphones (+15%) during the quarter, compared to quarterly purchases.

The breakdown is detailed as follows:

	At September 30,		At June 30,	
	2016			
	(in *thousands of* US$)	(in *thousands of* COP$)	(in *thousands of* US$)	(in *thousands of* COP$)
Mobile phones and accessories	25,835	74,405,720	28,984	83,475,837
Equipment in transit	5,759	16,587,384	6,960	20,046,045
Other inventories	1,286	3,703,434	1,686	4,858,184
Computer equipment	791	2,277,674	893	2,571,495
	33,671	**96,974,212**	**38,523**	**110,951,561**
Impairment loss of inventories	(1,611)	(4,638,805)	(1,998)	(5,755,644)
	32,060	**92,335,407**	**36,525**	**105,195,917**

Note 8 – Taxes Receivables and Payables

The asset balance for taxes receivables is presented as follows:

	At September 30,		At June 30,	
	2016			
	(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)	28,751	82,805,660	54,995	158,389,023
Advance of surcharge of income tax for equality (CREE)	1,033	2,973,727	1,033	2,973,727
Self-withholding for income tax for equality CREE (b)	20,565	59,228,816	13,698	39,452,534
Self-withholding for income tax (c)	18,783	54,095,117	12,347	35,560,383
Income tax withholdings (c)	1,072	3,088,131	950	2,735,228
Sales tax withholding	157	455,304	478	1,376,586
Advance, withholdings and self-withholding ICA (e)	3,498	10,073,157	2,801	8,068,152
	73,859	**212,719,912**	**86,302**	**248,555,633**

The decrease of US$12,443 (COP$35,835,721), at the end of September 30 of 2016, compared to the end of June 30 of 2016, is explained as follows:

(a) Decrease due to the refund of the credit balance of self-withholdings for CREE concerning the fiscal year 2015 by US$26,244 (COP$75,583,363). The balance at September of 2016 corresponds to the balance in favor of the declaration of the income tax of 2015 of US$28,751 (COP$82,805,660), which is in process of authorization by Colombian Tax and Customs Authority – DIAN, and offsets the tax liability regarding the VAT of the first four months of 2016.

(b) Increase due to the payment of the CREE's self-withholdings, corresponding to the accrual of the third quarter of 2016 of US$6,867 (COP$19,776,282).

(c) Increase of self-withholdings for income tax and income tax withholdings for US$6,558 (COP$18,887,637), corresponding to the i) accrual the third quarter of 2016 of US$6,436 (COP$18,534,734) and ii) the withholding taxes as income tax title effected by the financial institutions on income by US$122 (COP$352,903).

(d) Net increase in advances, withholdings and self- withholdings of the Industry and Commerce Tax (ICA) generated by the accrual of the third quarter of 2016, of the Industry and Commerce Tax – ICA - of US$697 (COP$2,005,005).

Current taxes payables are presented as follows:

	At September 30,		At June 30,	
	2016			
	(in *thousands of* US$)	(in *thousands of* COP$)	(in *thousands of* US$)	(in *thousands of* COP$)
Sales tax – VAT (a)	39,518	113,815,452	42,390	122,087,964
National consumption tax (b)	1,118	3,220,841	2,361	6,798,726
Withholdings and self-withholdings (c)	14,431	41,561,982	11,334	32,642,894
Surtaxes and stamps	157	452,841	154	442,167
Municipal taxes(d)	503	1,448,055	647	1,863,105
	55,727	**160,499,171**	**56,886**	**163,834,856**

Note 8 - Taxes Receivables and Payables (Continued)

Decrease of US$1,159 (COP$3,335,685), compared to June 30, 2016, is explained as follows:

(a) Decrease in the VAT sales tax in US$2,872 (COP$8,272,512) due to the effect of net accrual and payment of the VAT corresponding to the period. The balance of this tax liability at the end of the third quarter of 2016 includes US$28,751 (COP$82,805,660) in compensation process with the credit balance of the income statement of 2015.

(b) Decrease in the national consumption tax at US$1,243 (COP$3,577,885) explained by i) the accrual for US$1,118 (COP$3,220,841) and ii) the payment made for US$2,361(COP$6,798,726) during the period.

(c) Net increase in the accrual of the withholdings at source and the self-withholdings for income tax and income tax for equality CREE at September 2016, compared to June in US$3,097 (COP$8,919,088).

(d) Decrease of the municipal taxes explained by the payment made of US$144 (COP$415,050) of the wealth tax which included the balance recorded at the end of third quarter of 2016.

Note 9 – Property, Plant and Equipment

During the third quarter of 2016, property, plant and equipment increased by 1.8% US$28,204 (COP$81,230,292) compared to the second quarter of 2016, as net result of:

- Investments (CAPEX) of US$92,887 (COP$267,522,531) for expansion in the capacity of voice and data transmission, deployment and expansion of the new LTE 4G technology network, as well as equipment installation for the provision of fixed operation services such as home equipment of residential customers and the business segment; it also includes investments needed to expand and upgrade the transmission network and access via copper cable and fiber optics.

- Depreciation expense during the third quarter of 2016 was of US$62,353 (COP$179,581,288).

- Disposals and retirement of assets, primarily of copper cable to be replaced on the fixed access network with optimization purposes in the service quality for a total of US$580 (COP$1,669,169).

- Transfers to intangible assets of US$887 (COP$2,555,798) and depreciation of the revaluation of assets of US$864 (COP$2,485,983).

Based on the recoverable values analysis, the management of the company does not evidence signs of impairment of the properties, plant and equipment assets in accordance with the main considerations of the Strategic Plan, among which are: macroeconomic variables, ARPU (Average Revenues Per User), costs of customer acquisition and retention, shares of net gain of accesses, market shares, investments in non-current assets, growth rates and discount rate.

Note 9 - Property, Plant and Equipment (continued)

The composition at September 30, 2016 and the movement of property, plant and equipment during the third quarter of 2016 were as follows:

Concept	Balance at June 30, 2016	Acquisitions / Addition	Retirements	Transfers	Revaluation(1)	Balance at September 30, 2016
Cost:			*(In thousands of US$)*			
Land and construction	1,044,402	3,289	(155)	3,515	(95)	1,050,956
Technical installations, machinery and others	2,810,631	42,085	(2,490)	9,651	-	2,859,877
Equipment	133,720	46,457	(69)	(15,071)	-	165,037
Furniture, equipment management of information and miscellaneous	213,075	1,057	(775)	1,018	-	214,375
	4,201,828	**92,888**	**(3,489)**	**(887)**	(95)	**4,290,245**
Accumulated depreciation:						
Constructions	(517,148)	(12,324)	112	-	(769)	(530,129)
Technical installations, machinery and other equipment	(1,958,821)	(45,981)	2,038	-	-	(2,002,764)
Furniture and equipment of information	(156,577)	(4,048)	759	-	-	(159,866)
	(2,632,546)	**(62,353)**	**2,909**	-	**(769)**	**(2,692,759)**
	1,569,282	**30,535**	**(580)**	**(887)**	**(864)**	**1,597,486**

Concept	Balance at June 30, 2016	Acquisitions / Addition	Retirements	Transfers	Revaluation(2)	Balance at September 30, 2016
Cost:			*(In thousands of COP$)*			
Land and construction	3,007,962,484	9,472,874	(446,510)	10,122,545	(272,302)	3,026,839,091
Technical installations, machinery and others	8,094,842,659	121,206,002	(7,170,391)	27,796,287	-	8,236,674,557
Equipment	385,122,108	133,800,243	(197,702)	(43,404,588)	-	475,320,061
Furniture, equipment management of information and miscellaneous	613,674,117	3,043,411	(2,232,368)	2,929,958	-	617,415,118
	12,101,601,368	**267,522,530**	**(10,046,971)**	**(2,555,798)**	**(272,302)**	**12,356,248,827**
Accumulated depreciation:						
Constructions	(1,489,426,826)	(35,493,253)	323,338	-	(2,213,681)	(1,526,810,422)
Technical installations, machinery and other equipment	(5,641,562,100)	(132,429,039)	5,869,499	-	-	(5,768,121,640)
Furniture and equipment of information	(450,955,346)	(11,658,996)	2,184,965	-	-	(460,429,377)
	(7,581,944,272)	**(179,581,288)**	**8,377,802**	**-**	**(2,213,681)**	**(7,755,361,439)**
	4,519,657,096	**87,941,242**	**(1,669,169)**	**(2,555,798)**	**(2,485,983)**	**4,600,887,388**

(1) Includes drops and depreciation of revalued assets.

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Note 10 – Intangibles Assets

The composition at September 30, 2016 and the movement of intangibles assets during the third quarter of 2016, were as follows:

Concept	Balance at June 30, 2016	Acquisitions / Addition	Transfers	Balance at September 30, 2016
Cost:		*(In thousands of US$)*		
Operating licenses	429,475	-	-	429.475
Computer applications	505,077	20,257	887	526,221
Customers list	215,812	-	-	215,812
Other intangibles	28,733	-	-	28,733
	1,179,097	**20,257**	**887**	**1,200,241**
Accumulated amortization				
Operating licenses	(266,204)	(5,684)	-	(271,888)
Computer applications	(376,955)	(15,926)	-	(392,881)
Customers list	(215,812)	-	-	(215.812)
Other intangibles	(9,769)	(265)	-	(10,034)
	(868,740)	**(21,875)**	**-**	**(890,615)**
	310,357	**(1,618)**	**887**	**309,626**

Concept	Balance at June 30, 2016	Acquisitions / Addition	Transfers	Balance at September 30, 2016
Cost:		*(In thousands of COP$)*		
Operating licenses	1,236,921,539	-	-	1,236,921,539
Computer applications	1,454,663,087	58,340,940	2,555,798	1,515,559,825
Customers list	621,555,372	-	-	621,555,372
Other intangibles	82,754,191	-	-	82,754,191
	3,395,894,189	**58,340,940**	**2,555,798**	**3,456,790,927**
Accumulated amortization				
Operating licenses	(766,689,936)	(16,369,966)	-	(783,059,902)
Computer applications	(1,085,661,288)	(45,869,193)	-	(1,131,530,481)
Customers list	(621,555,372)	-	-	(621,555,372)
Other intangibles	(28,135,882)	(760,985)	-	(28,896,867)
	(2,502,042,478)	**(63,000,144)**	**-**	**(2,565,042,622)**
	893,851,711	**(4,659,204)**	**2,555,798**	**891,748,305**

During the third quarter of 2016, intangible assets decrease by 0.2%, or US$731 (COP$2,103,406) compared to June 30, 2016, the above as net result of:

- Investments (CAPEX) for US$20,257 (COP$58,340,940) in renovation, upgrade and capacity expansion of mobile network equipment software (Core Equipment, platforms and Radio Access Network (RAN) Equipment) as well as the necessary software for office equipment and for equipment in data centers such as servers and database engines.

- Amortization expenditures during the third quarter were of US$21,875 (COP$63,000,144).

- Transfers from property, plant and equipment of US$887 (COP$2,555,798).

Based on the recoverable values' analysis, the management of the company does not evidence signs of impairment of the intangible assets in accordance with the main considerations of the Strategic Plan, among which are: macroeconomic variables, ARPU (Average Revenues Per User), costs of customer acquisition and retention, shares of net gain of accesses, market shares, investments in non-current assets, growth rates and discount rate.

Note 11 - Deferred Tax

Deferred Tax Assets

The deferred tax assets decreased by US$31,383 (COP$90,385,298) against the second quarter of 2016, as a result of the:

Note 11 - Deferred Tax (Continued)

- Reduction of US$5,091 (COP$14,662,250) from the use of tax credits of the income tax for equity CREE (15%) on the taxable income.
- Reduction of US$9,940 (COP$28,629,273) from the use of tax credits of the income tax (25%) on the taxable income.
- Reduction of US$16,644 (COP$47,934,962) from the use of temporary differences related to the PARAPAT and estimated liabilities and provisions.
- Increase of US$ 292 (COP$841,185) due to the depreciation of the revalued cost of property of PARAPAT with balancing entry in the equity account *Reserves for Revaluation*.

Deferred Tax Liabilities

The deferred tax liability decreased by US$16,378 (COP$47,168,745), against the second quarter of 2016, mainly due to the:

- Decrease of US$19 (COP$54,833) due to the depreciation of the revalued cost of own property with balancing entry in the equity account *Reserves for Revaluation*.
- Decrease of US$7,509 (COP$21,627,195) for the use of taxable temporary differences, arising mainly from the hedges valuation with balancing entry in the equity account *Reserves for Cash Flows Hedge Derivatives*.
- Decrease of US$8,850 (COP$25,486,717) for the use of taxable temporary differences arising mainly from the hedging valuation with balancing entry in in the Comprehensive Income Statement account Income and deferred taxes.

Note 12 – Financial Obligation and Other Financial Obligations

Financial obligations, including PARAPAT, totaled US $2,825,026 (COP$8,136,302,586) as of September of 2016, an increase of 5.2%, US$138,446 (COP$398,735,530) compared to June 2016. The PARAPAT obligation totaled US$1,419,047 (COP$4,086,970,147), increasing US$21,976 (COP$63,293,555), compared to June 2016.

	At September 30,		**At June 30,**	
	2016			
	(in *thousands* of US$)	**(in *thousands* of COP$)**	**(in *thousands* of US$)**	**(in *thousands* of COP$)**
Current				
Financial obligations (a)	87,617	252,345,103	86,052	247,837,885
Hedging instruments (d) (1)	51,481	148,270,577	41,208	118,683,305
Other financial obligations (interests)	3,780	10,885,473	13,807	39,764,146
	142,878	**411,501,153**	**141,067**	**406,285,336**
Other financial obligations - PARAPAT (c)	175,870	506,519,850	174,480	502,516,373
Total Current	**318,748**	**918,021,003**	**315,547**	**908,801,709**

	At September 30,		At June 30,	
	2016			
	(in *thousands* of US$)	(in *thousands* of COP$)	(in *thousands* of US$)	(in *thousands* of COP$)
Non - current				
Financial obligations (b)	1,260,906	3,631,510,375	1,148,442	3,307,605,129
Hedging Instruments (d) (1)	2,195	6,320,911	-	-
	1,263,101	**3,637,831,286**	**1,148,442**	**3,307,605,129**
Other financial obligations - PARAPAT (c)	1,243,177	3,580,450,297	1,222,591	3,521,160,218
Total Non-current	**2,506,278**	**7,218,281,583**	**2,371,033**	**6,828,765,347**
Total financial debt	**2,825,026**	**8,136,302,586**	**2,686,580**	**7,737,567,056**

(1) See, *Hedging instruments*

a) Increase of financial short-term debt with credit institutions for US$1,565 (COP$4,507,218) due to: i) contracting of new debt by US$48,610 (COP$140,000,000), ii) decrease for debt payment by US$9,775 (COP$28,153,059), iii) decrease of US$38,291 (COP$110,280,261) for the reclassification to long-term debt for the renegotiation of conditions and iv) increase of US$1,021 (COP$2,940,535) associated with the exchange difference due to the long-term reclassification of the debt denominated in US Dollars.

b) Increase in long-term financial debt with credit institutions for US$112,464 (COP$323,905,246) as follows: i) contracting of new debt by US$86,803 (COP$250,000,000), ii) decrease of US$12,630 (COP$36,375,014) net of the difference in exchange rate and other effects, which includes senior bond exchange rate difference; and iii) an increase of US$38,291 (COP$110,280,261) due to the short-term to long-term debt reclassifications for term renegotiation.

Senior bond

	At September 30,		At June 30,	
	2016			
Senior Bond	(in *thousands of* US$)	(in *thousands of* COP$)	(in *thousands of* US$)	(in *thousands of* COP$)
Face value	750,000	2,160,060,000	760,138	2,189,257,500
Transaction of cost	(2,195)	(6,322,001)	(2,285)	(6,581,471)
Total Senior Bond	**747,805**	**2,153,737,999**	**757,853**	**2,182,676,029**

The net change in long-term bonds was U$10,048 (COP$28,938,031). The decrease corresponds to revaluation of the exchange rate of 1.3%. The bonds nominal value is shown net of the issuance cost.

c) Increase of the PARAPAT debt worth U$21,976 (COP$63,293,555) net between interest capitalization of U$50,751 (COP$146,165,519) and payments that have been made in the period of U$28,774 (COP$82,871,964).

d) Increase in the valuation of short-term derivatives of U$10,273 (COP$29,587,272), explained by i) an increase in the exchange rate of non-delivery forward hedges by U$4,610 (COP$13,277,158) due to the revaluation of the exchange rate of the period by 1.3%; ii) increase in the valuation per hedge interest rate by U$7,610 (COP$21,916,820) iii) decrease in the valuation of CVA/DVA of U$1,947 (COP$5,606,707).

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 liabilities to third parties (CAPEX and OPEX) denominated in US dollars and its financial liabilities in US dollars 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.

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

Total mark to market explained by exchange rate effect (financial and trade operations) decrease 14.2%, US$13,756 (COP$39,619,795), due to revaluation of Colombian Peso by 1.3% during the third quarter of 2016. The valuation for interest rate increased 32.9%, US$29,979 (COP$86,341,823) due to the displacement of the Libor Interest Rate Swap curve during the period.

The net positions for the derivatives, according to its underlying obligations, are:

	At September 30,		At June 30,	
	2016			
	(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)	77,993	224,624,960	(29,956)	(86,275,444)
Mark to market – exchange rate effect for trade operations	(2,022)	(5,826,066)	(673)	(1,940,064)
Mark to market – interest rate effect	62,947	181,293,458	(6,710)	(19,324,277)
CVA/DVA(2)	162	467,298	43	124,388
Total short term, net (Note 4 and 12) (2)	**139,080**	**400,559,650**	**(37,296)**	**(107,415,397)**
Long term				
Mark to market – Exchange rate effect for financial operations(1)	7,283	20,978,885	127,640	367,613,081
Mark to market – Interest rate effect	(1,908)	(5,496,388)	97,728	281,463,170
Total long term, net (Note 4 and 12) (2)	**5,375**	**15,482,497**	**225,367**	**649,076,251**
Total mark to market	**144,455**	**416,042,147**	**188,071**	**541,660,854**
Breakdown by Effect				
Exchange rate effect				
Exchange rate effect for financial operations	85,276	245,603,845	97,684	281,337,637
Exchange rate effect for trade operations	(2,022)	(5,826,067)	(673)	(1,940,064)
Total exchange rate effect	**83,254**	**239,777,778**	**97,011**	**279,397,573**
Total Interest rate effect	61,039	175,797,070	91,018	262,138,893
Total CVA/DVA	162	467,299	42	124,388
Total mark to market	**144,455**	**416,042,147**	**188,071**	**541,660,854**

(1) Corresponds to the exchange rate of derivatives hedging financial underlying items, values to be considered for the calculation of the leverage ratio of the 2022 Senior Bond Covenant.
(2) Corresponds to the net position liability and asset (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,	
	2016			
	(in *thousands of* US$)	(in *thousands of* COP$)	(in *thousands of* US$)	(in *thousands of* COP$)
Current:				
Suppliers	202,892	584,345,785	213,311	614,351,323
Capital expenditures	111,326	320,627,606	103,668	298,571,506
Shareholders, related parties and foreign associated companies(1)	49,850	143,572,184	42,397	122,109,176
Labor obligations	8,673	24,979,192	7,141	20,566,426
Others	879	2,529,581	997	2,871,983
	373,620	**1,076,054,348**	**367,514**	**1,058,470,414**

	At September 30,		At June 30,	
	2016			
	(in *thousands of* US$)	(in *thousands of* COP$)	(in *thousands of* US$)	(in *thousands of* COP$)
Non-current:				
Debt with public administrations (spectrum)	50,650	145,874,625	51,351	147,895,929
Grants	5,312	15,298,223	5,515	15,882,187
Deposits received from clients and others	10,061	28,979,961	9,933	28,607,688
	66,023	**190,152,809**	**66,799**	**192,385,804**
	439,643	**1,266,207,157**	**434,313**	**1,250,856,218**

(1) Related items show a greater increase for international traffic operations and management of the international business for the third quarter.

Note 14 – Estimates Liabilities and Provisions

Current estimates liabilities and provisions increase by US$2,036 (COP$5,862,496), main variations are explained below:

- Increase in provisions for labor obligations of US$2,729 (COP$7,860,487), and,
- Decrease in tax provision of US$694 (COP$1,997,991) for net effect between accrual and payment.

Non-current estimates liabilities and provisions increase by US$2,078 (COP$5,983,960) due to the increase in provisions for claims before the SIC (Superintendence of Industry and Commerce).

Note 15 – Shareholders´ Equity, Net

Authorized, subscribed and paid capital is presented as follows:

Share Capital

	At September 30 and June 30, 2016	At December 31, 2015
	(in *thousands of* COP$)	
Authorized capital	$ 1,454,870,740	$ 1,454,870,740
Subscribed and paid capital	1,454,871	1,454,870,740
Number of outstanding shares	1,454,870,740	1,454,870,740
Nominal value (in pesos)	1	1,000

The number of shares and the participation at September 30st and June 30st of 2016 is presented as follows:

Shareholders	Number of shares	Percentage %
Telefónica Internacional S.A.U.	437,085,325	30,0428975
The Nation – Ministry of Finance and Public Credit	472,832,991	32,5000000
Olympic Ltda, In liquidation	275,603,185	18,9434826
Telefónica S.A.	269,339,035	18,5128185
Radio Televisión Nacional de Colombia-RTVC	10,000	0,0006873
Canal Regional de Televisión Ltda,- TEVEANDINA	200	0,0000137
Latin America Cellular Holdings S.L.	2	0,0000001
Central de Inversiones S.A.-CISA	1	0,0000001
Terra Networks Colombia S.A.S.	1	0,0000001
	1,454,870,740	**100,0000000%**

Note 16 – Operating Revenue

The following table sets forth the principal components of our revenues for the nine-month period ended September 30, 2016 and 2015.

	Period from January 1 to September 30,				Variation
	2016		2015		Percentage
	(in *thousands of* US$)	(in *thousands of* COP$)	(in *thousands of* US$)	(in *thousands of* COP$)	%
Mobile Operation					
Voice services	282,495	813,609,461	325,068	936,222,360	(13.1%)
Mobile data transmission	244,044	702,867,078	184,919	532,582,218	32.0%
Added value services (a)	28,629	82,452,775	36,820	106,044,776	(22.2%)
Carrier services – MVNO (b)	31,796	91,574,146	29,360	84,558,177	8.3%
Interconnection and roaming	58,476	168,414,853	69,336	199,694,511	(15.7%)
Sales of mobile equipment	96,404	277,652,454	82,703	238,191,683	16.6%
Loyalty program	(146)	(420,549)	(211)	(606,309)	(30.6%)
Mobile Operation Revenues	**741,698**	**2,136,150,218**	**727,995**	**2,096,687,416**	**1.9%**
Fixed Operation					
Data transmission services	185,089	533,072,375	180,544	519,981,022	2.5%
Fixed telephony and long distance	156,367	450,348,265	173,922	500,910,424	(10.1%)
Satellite television services	66,507	191,544,143	49,551	142,710,322	34.2%
IT and new services	73,867	212,743,216	33,521	96,542,214	120.4%
Sales of equipment	744	2,142,773	765	2,198,930	(2.6%)
Fixed Operation Revenues	**482,574**	**1,389,850,772**	**438,303**	**1,262,342,912**	**10.1%**
Operating Revenues	**1,224,272**	**3,526,000,990**	**1,166,298**	**3,359,030,328**	5.0%
Other operation revenue (c)	30,416	87,600,090	29,074	83,735,511	4.6%
Total Revenue	**1,254,688**	**3,613,601,080**	**1,195,372**	**3,442,765,839**	**5.0%**

(a) Includes messaging, rehabilitation charges, and content, among others.
(b) MVNO – Mobile Virtual Network Operation
(c) Includes other income such as billing and collection to third parties, commercial support, grants and leases, among others.

Operating revenue reached US$1,224,272 (COP$3,526,000,990), a 5.0% year-on-year increase (+1.9% quarter-on-quarter) driven mainly by the mobile data business (+32.0% year-on-year and +14.5% quarter-on-quarter), *Information technology and new services* (+120% year-on-year) and satellite television (+34.2% year-on-year and 10.5% quarter-on-quarter) which offset lower revenues from mobile and fixed voice, as a result of the aggressive competitive scenario and mobile interconnection, due to the reduction in mobile termination rates. Excluding strong regulatory impact, total revenues would have grown 7.0%.

Mobile revenues reached US$741,698 (COP$2,136,150,218) at the end of the third quarter, a 1.9% year-on-year increase, despite of the revenue decrease for interconnection and roaming due to reduction by 42.2% on mobile termination rates introduced from January 1st, 2016. The growth in mobile revenue is generated as a result of i) the better performance data services revenues, which are supported by the prepaid service offer "*All in One*" (integrated voice, data and VAS offer) and "*Más por más*" in postpaid offer; and ii) the strong performance of service revenues focused on high value customers.

Fixed business revenues amounted to US$482,574 (COP$1,389,850,772) at the end of the third quarter, increasing 10.1% year-on-year (+0.9% quarter-on-quarter) leveraged by the income from *Information technology and new services*, satellite television and Broadband. The fixed business continued to successfully implement the bundling strategy and in the quarter, new 20 Mb and 40 Mb plans were launched in the bundled offering.

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

a) Revenues from ***mobile voice service***, including prepaid and postpaid, decreased by 13.1%, from US$325,068 (COP$936,222,360) to US$282,495 (COP$813,609,461) at the end of the third quarter of 2015 and 2016 respectively.

Note 16 - Operating Income (continued)

Decrease is mainly explained by a dynamic of reduction of *Monthly fixed fees,* consequence of voice to data substitution effect and the increase in promotional activity of competitors, which includes charges per seconds in post-paid plans and the decrease of the price per second in prepaid plans, especially from new operators. Nevertheless, quarter on quarter revenue reduction slow pace to 3.5% compared to first and second quarter variation of 6.9% and 5.1% respectively. Commercial activity had a highlighted performance, mobile subscribers grew for the fifth quarter in a row at a record rate of 2.5% showing a year on year increase of 7.1% from 12.6 million at the end of third quarter of 2015 to 13.6 million in the third quarter of 2016 along with an increase of gross adds by 9.4% year on year (+5.9% quarter on quarter) and the reduction of churn 0.53 p.p year-on-year (-0.24 p.p quarter-on-quarter).

b) Revenues from ***mobile data transmission (connectivity)*** increased by 32.0% from US$184,919 (COP$532,582,218) at the end of third quarter of 2015 to US$244,044 (COP$702,867,078) at the end of third quarter of 2016 (+14.5% quarter-on-quarter), mainly explain by the year-on-year increase of data traffic of 37.5% (+9.7% quarter-on-quarter), excluding MVNO traffic. The Company's strategy is focused on data services growth, through the deployment of the 4G network. At the end of the third quarter of 2016 subscribers' base over LTE network had reached 1.9 million, showing an exceptional growth of 125.1% year-on-year (+16.5% quarter-on-quarter).

   Additionally, smartphones' customer base grew 19.4% year-on-year (+5.1% quarter-on-quarter), from 3.9 million subscribers to 4.7 million subscribers at the end of third quarter of 2015 and of 2016, respectively. Onnet prepaid smartphones' penetration, reached 25.4% (+1.0% year-on-year) as of September, 2016 and postpaid smartphones' penetration reached 77.1%, (+13.1% year-on-year) at the end of the third quarter of 2016.

c) Revenues from ***value added services*** decreased by 22.2% from US$36,820 (COP$106,044,776) at the end of the third quarter of 2015 to US$28,629 (COP$82,452,775) at the end of the third quarter 2016 (-7.1% quarter-on-quarter) mainly due to the replacement of VASs and SMS for new applications through Data Services (Connectivity).

d) The ***carrier services (MVNO)*** **line**, which includes revenues generated by the Mobile Virtual Network Operator due to incoming and outgoing traffic, grew 8.3%, from US$29,360 (COP$84,558,177) to US$31,796 (COP$91,574,146) at the end of the third quarter of 2015 and third quarter of 2016 respectively, due to the increase in data traffic by 69.5% (+12.7% quarter-on-quarter) and growth in voice traffic by 33.6% year-on-year (+3.2% quarter-on-quarter).

e) The **interconnection and roaming** revenues decreased by 15.7% from US$69,336 (COP$199,694,511) at the end of the third quarter 2015 to US$58,476 (COP$168,414,853) at the end of the third quarter 2016 mainly due to the reduction by 42.2% in mobile termination rates from January 1st of 2016. Excluding this effect, interconnection revenues would have increased 18.3% due to incoming traffic growth year-on-year by 24.2%. The decrease in revenues is offset by the reduction of interconnection cost due to the same impact (*See Note 17 e*)). Quarter-on-quarter increase by 10.1% is mainly explained by the quarterly increase of the mobile traffic of 5.5%.

f) Revenues from **sales of equipment** increased by 16.6% year-on-year, or US$13,701 (COP$39,460,770) at the end of the third quarter 2016, mainly due to the impact of the devaluation of the exchange rate with an increase of 16.2% year-on-year, which translates to the equipment selling price. Likewise, increase in the average price of equipment , which increased 10.15% year-on-year (+3.45% quarter-on-quarter), given the largest share of smartphones in the handsets sales mix closing in the third quarter of 2016 at 93.4%. In the third quarter, there was a slowdown in handset revenues -10.2% quarter-on-quarter, related to the appreciation of the Colombian peso that reduced handset prices in the quarter, reverting the trend of previous quarters.

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

a) Revenues from ***fixed telephony and long distance*** decreased by 10.1%, from US$173,922 (COP$500,910,424) in the third quarter of 2015 to US$156,367 (COP$450,348,265) as of September 2016 (+2.2% quarter-on-quarter), mainly due to a year-on-year decrease of subscribers' base by 4.1% (-0.9% quarter-on-quarter) and ARPU by 5.3%, from US$10.2

Note 16 - Operating Income (continued)

(COP$29,271) at the end of the third quarter of 2015 to US$9.6 (COP$27,730) at the end of the third quarter of 2016 (+1.3% quarter-on-quarter). These decreases are the result of the product life cycle, fixed to mobile substitution effect.

b) Revenues from ***data transmission services*** increased by 2.5%, from US$180,544 (COP$519,981,022 thousand) at the end of the third quarter of 2015 to US$185,089 (COP$533,072,375) at the end of the third quarter of 2016, explained by (i) the increase by 5.5% year-on-year of the revenues from broadband internet services due to an increase in ARPU of 4.2%, amounting US$11.2 (COP$32,130) at the end of the third quarter of 2016, result of the launch of a new commercial offer focused on the packaging of products with additional services (Movistar Play) and migration to broad band of 10 Mbs, 20 Mbs and 40 Mbs increasing quality and customer loyalty. In addition, (ii) data revenues and capacity rental decreased 2.5% year-on-year due to the termination of contracts with corporate segment customers.

c) Revenues from ***Satellite television services*** increased by 34.2%, or US$16,956 (COP$48,833,821) year-on-year (+10.5% quarter-on-quarter) due to subscribers and ARPU year-on-year growth. Subscribers' base grew 12.9%, rising from 471 thousand at the end of the third quarter of 2015 to 532 thousand at the end of the third quarter of 2016 (+2.2% quarter-on-quarter). Increased quality of the subscribers' base benefited ARPU, that increase 14.7% year-on-year, amounting US$14.4 (COP$41,511) at the end of third quarter of 2016. Year-on-year revenues growth is the result of the HD channels broader portfolio (+5 channel included in the offering) and premium contents improvement.

d) Revenues from ***IT and Integral Solutions*** increased by 120.4% or US$40,346 (COP$116,201,002) year-on-year mainly explained by new IT tailor made projects for corporate/government clients.

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, 2016 and 2015:

	Period from January 1 to September 30,				**Variation**
	2016		**2015**		**Percentage**
	(in *thousands of* US$)	**(in *thousands of* COP$)**	**(in *thousands of* US$)**	**(in *thousands of* COP$)**	**%**
Commercial cost					
Cost of terminals and accessories	(142,649)	(410,841,191)	(107,313)	(309,069,614)	32.9%
Commissions	(56,158)	(161,739,273)	(49,442)	(142,398,040)	13.6%
Advertisement and brand fee	(35,561)	(102,419,133)	(36,634)	(105,508,910)	(2.9%)
Total commercial cost	**(234,368)**	**(674,999,597)**	**(193,389)**	**(556,976,564)**	**21.2%**
Other costs					
Rentals and other network infrastructure	(92,717)	(267,032,092)	(85,561)	(246,422,035)	8.4%
Maintenance	(70,185)	(202,138,579)	(65,108)	(187,515,567)	7.8%
Labor cost	(89,099)	(256,612,699)	(87,327)	(251,507,874)	2.0%
Interconnection and roaming	(73,257)	(210,985,963)	(75,932)	(218,689,098)	(3.5%)
Taxes and compensations	(62,727)	(180,659,024)	(60,291)	(173,643,416)	4.0%
Other costs and operation expenses *(a)*	(60,041)	(172,923,951)	(48,050)	(138,386,495)	25.0%
Energy	(40,134)	(115,589,527)	(34,323)	(98,853,312)	16.9%
Contents suppliers	(38,051)	(109,588,804)	(34,155)	(98,370,144)	11.4%
Services (customer services)	(20,461)	(58,928,484)	(21,576)	(62,139,338)	(5.2%)
Provision for doubtful accounts	(11,618)	(33,460,017)	(14,473)	(41,684,121)	(19.7%)
Other non-recurrent costs	(9,116)	(26,255,201)	(6,013)	(17,318,057)	51.6%
Other *(b)*	(68,900)	(198,436,590)	(62,975)	(181,375,891)	9.4%
Total other cost and expenses	**(636,306)**	**(1,832,610,931)**	**(595,784)**	**(1,715,905,347)**	**6.8%**
Total costs and expenses	**(870,674)**	**(2,507,610,528)**	**(789,173)**	**(2,272,881,912)**	**10.33%**

(a) Includes third-party activities to customers and computer services,

(b) Includes surveillance services, collection commission, administrative rentals, insurance, transport, billing and printing services, collection management, among others.

Note 17 – Operating Cost and Expenses (continued)

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

a) An increase of 32.9% year-on-year in the ***cost of terminals and accessories*** from US$107,313 (COP$309,069,614) to US$142,649 (COP$410,841,191) mainly caused by the impact for the devaluation of the exchange rate of 16.2%, year-on-year, and the increase in purchases of equipment associated with specific projects tailored for corporate/government customers. Quarter on quarter, a reduction of 24.5% is generated, explained because the purchases related to these special projects were implemented in the first half of the year.

b) Costs of **rentals and other network infrastructures** increased by 8.4%, or US$7,156 (COP$20,610,057) (+5.1% quarter-on-quarter) mainly due to the expansion of LTE technology network nationwide in 242 new deployed sites during the last twelve months (+142 deployed sites during the last three months) and the increase of inflation. Additionally, increase in rental of technical sites, increase of international capacity and rental of last mile to meet demand for broadband customer growth.

c) The costs of network ***maintenance*** increased by 7.8% year-on year from US$65,108 (COP$187,515,567) to US$70,185 (COP$202,138,579) due to the commissioning of new sites (towers and antennas), the support of new projects and exchange rate impact due to devaluation of 16.2% year-on-year. The quarterly expenditure shows a reduction of -3.5%, explained mainly due to revaluation of the last quarter of 1.5% of the exchange rate.

d) ***Interconnection and roaming*** costs, including mobile termination rates, decreased by 3.5% year-on-year mainly due to the implementation of Resolution 4660 of 2014 of the Communications Regulation Commission – CRC, which contemplates the decrease of termination rates by 42.2% from January 2016.

e) ***Other costs and operation expenses*** increased by 25.0% or US$11,992 (COP$34,537,456) (+8.8% quarter-on-quarter) mainly due to greater costs associated to the new projects of the corporate and wholesale segments.

f) The ***commissions*** increased by 13.6%, from US$49,442 (COP$142,398,040) to US$56,158 (COP$161,739,273) year-on-year mainly due to higher commercial activity during 2016, compared with 2015. During 2016 gross adds increased by 9.4% compared to 2015.

g) ***Energy*** increased by 16.9%, year-on year or US$5,811 (COP$16,736,215) (+3.9 quarter-on-quarter) mainly due to the increase of tariffs, as consequence of the meteorological phenomenon "El Niño", increase in consumption, and the new technical sites' commissioning.

h) ***Contents suppliers*** increased by 11.4% year-on-year, from US$34,155 (COP$98,370,144) to US$38,051 (COP$109,588,804) (-1.8% quarter-on-quarter), mainly due to the outstanding TV subscribers growth and exchange rate impact due to devaluation of 16.2% year-on-year. Compared to the previous quarter there is a reduction of 1.8%, due to renegotiations with TV content suppliers and the revaluation of the exchange rate of 1.5%.

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, 2016 and 2015:

	Period from January 1 to September 30,			
	2016		2015	
	(in *thousands of* US$)	(in *thousands of* COP$)	(in *thousands of* US$)	(in *thousands of* COP$)
Depreciation of property, plant and equipment	(189,932)	(547,018,287)	(188,614)	(543,222,415)
Amortization of intangibles assets	(63,544)	(183,013,028)	(62,914)	(181,198,502)
Depreciation and amortization	**(253,476)**	**(730,031,315)**	**(251,528)**	**(724,420,917)**

The expense for depreciation and amortization increase by 0.8% or US$1,948 (COP$5,610,398), as of September,30 2016, mainly due to new additions of US$45,368 (COP$130,663,252), end of useful lives for US$43,014 (COP$123,885,195) and derecognition of financial assets for US$405 (COP$1,167,659).

Note 19 – Financial Result, net

The net financial result increased by 20.6%, from US$181,960 (COP$524,057,540) at the end of the third quarter of 2015 to US$219,466 (COP$632,077,625) as of September 30, of 2016:

	Period from January 1 to September 30,			
	2016		2015	
	(in *thousands of* US$)	(in *thousands* of COP$)	(in *thousands of* US$)	(in *thousands of* COP$)
Debt interest expense (a)	(65,440)	(188,473,151)	(59,403)	(171,084,571)
Hedging financial expenses (b)	(16,614)	(47,849,253)	(7,982)	(22,987,928)
Others (c)	(1,115)	(3,210,011)	(4,115)	(11,851,314)
Exchange rate difference	324	933,603	1,872	5,390,671
	(82,845)	**(238,598,812)**	**(69,628)**	**(200,533,142)**
Parapat interest expense (d)	(136,621)	(393,478,813)	(112,332)	(323,524,398)
Financial result, Net	**(219,466)**	**(632,077,625)**	**(181,960)**	**(524,057,540)**

a) Increase in the financial expense of the financial obligations by US$6,038 (COP$17,388,580) associated with i) increased Colombian interest rates (IBR) and ii) the new debt issued in 2016 of US$186,253 (COP$536,423,267) which generates an additional interest expense of US$1,416 (COP$4,279,070).

b) Increase in hedge interest expense for US$8,632 (COP$24,861,325) due to the increase in the contracted NDF rate; the average devaluation rate from 3.9% during 2015 to 5.0% in 2016.

c) Decrease of US$3,000 (COP$8,641,303) in other financial expenses, mainly associated with: i) a lower accrual in the financial update of the commercial obligation for the spectrum of US$2,890 (COP$8,322,480) by decreasing the indexing base by the amortizations made during the last twelve months, ii) the decrease in the tax on financial transactions during 2016 for US$814 (COP$2,344,251) due to the prepay of financial debt occurred in the first quarter of 2015 with the Hybrid Bond resources, iii) more financial income of US$871 (COP$2,509,711) and iv) an increase in other financial expenses of US$1,575 (COP$4,535,138).

d) Increase of US$24,289 (COP$69,954,415) in the interest expenses of the PARAPAT, associated with the rise in the Consumer Price Index – CPI - used for calculating the interest expenses, from 4.2% in 2015 to 6.4% in 2016.

Note 19 - Financial Result, net (continued)

Quarterly financial expense shows an increase of 30.8%, or US$20,070 (COP$57,802,211), from US$65,131 (COP$187,581,330) in the second quarter to US$85,200 (COP$245,383,541) for July-September mainly explained by i) an increase in hedge interest expense by US$9,282 (COP$26,732,716, 576.3% qoq) due to the displacement of the NDF valuation curve; ii) a rise in Parapat interest expense by 18.3% qoq, or US$ 7,845 (COP$ 22,594,088), as a result of the increase of CPI from 5.7% to 6.4% with retroactive effect back to January, 2016; and last, the increment of interest expenses related to third quarter credit withdrawal of US$135,413 (COP$390,000,000) and rise of the reference interest rate (IBR).

Note 20 – Wealth tax, income and deferred tax

At September of 2016, it was recorded a total tax expense of US$51,944 (COP$149,601,955); the breakdown is the following:

	Period from January 1 to September 30,			
	2016		2015	
	(in *thousands of* US$)	(in *thousands* of COP$)	(in *thousands of* US$)	(in *thousands of* COP$)
Wealth tax	4,289	12,351,561	5,018	14,452,861
Income tax for Equality - CREE	1,724	4,965,063	1,835	5,284,132
Miscellaneous income tax	11	31,290	-	-
Deferred Tax				
Deferred tax assets				
Temporary differences				
Recognition on PARAPAT	-	-	(43,826)	(126,222,664)
Use due to PARAPAT	39,451	113,623,307	36,531	105,212,139
Use due to estimated liabilities	28,110	80,960,400	-	-
Total temporary differences	67,562	194,583,707	(7,295)	(21,010,525)
Tax credits				
Recognition on tax losses and excess presumptive income	-	-	(19,533)	(56,257,659)
Benefit from tax losses and excess presumptive income	42,545	122,532,970	4,036	11,624,815
Tax losses of CREE, net	(10,792)	(31,082,402)	-	-
Total tax credits	31,753	91,450,568	(15,497)	(44,632,844)
Total Deferred tax assets	99,314	286,034,275	(22,792)	(65,643,369)
Deferred tax liabilities	(53,394)	(153,780,234)	-	-
Total Deferred tax	45,920	132,254,041	(22,792)	(65,643,369)
Total wealth tax, income and deferred tax	**51,944**	**149,601,955**	**(15,939)**	**(45,906,376)**

Note 21 – Self withholdings

The expense for income tax includes the expense of the current tax and deferred tax. Colombian companies are subject to corporate income tax currently set at a rate of 25.0%. Colombian tax regulations provide that the basis for the calculation of such income tax applicable is the greater of a company's net taxable income and its presumptive income. Under applicable regulations, presumptive income is equivalent to 3.0% of net tax equity (patrimonio líquido fiscal) of the company on the last day of the immediately preceding taxable year. However, according to article 73 of Law 1341 and article 24 of Law 142 of 1994, because we are a public utilities company (Empresa de Servicios Públicos) we have not determined nor paid income tax on a presumptive income basis.

In addition, pursuant to Law 1607 of 2012, we are required to pay the income tax for equality CREE at a rate of 9.0% from 2015 onwards. We are also subject to an annually increasing income tax for equality CREE surcharge of 5.0% in 2015, 6.0% in 2016, 8.0% in 2017 and 9.0% in 2018, applicable to our net taxable income exceeding COP$800 million. The surcharge will be

Note 21 – Self withholdings (continued)

eliminated in 2019. The income tax for equality CREE and the related surcharge are each calculated on the basis of the greater of our taxable income or our presumptive income. Although, as a public utilities company (Empresa de Servicios Públicos), we have not determined nor paid income tax based on our presumptive income, this exemption does not apply to the calculation of the CREE tax.

Regardless of the tax expense recognized, tax regulations provide that companies are forced to pay income taxes in advance (both corporate income tax and income tax for equality CREE) through self-withholdings, which are calculated on the basis of monthly revenues and paid the following month. Once Corporate Income Tax and income tax for equality CREE declaration are submitted and approved by the tax authority, total expense is compensated with paid self-withholdings and balance in favor is returned to the company. Positive balance can be used to compensate other indirect tax payments as valued add tax or suppliers withholdings.

Note 22 – Contingencies

The Company rates legal contingencies in accordance with the probable, eventual or remote probability of loss, and for quantification purposes, it determines the amounts to be accrued based on the reports of its legal advisors. Only probable contingencies are recorded as provisions.

As of September 30, 2016 the ongoing processes and which are reported as probable contingencies, and therefore has already been provisioned exhibit significant variation compared to the second quarter of 2016, showing an increase of 11.1%, from US$9,729 (COP$28,019,236) at June 30, 2016 to US$10,806 (COP$31,120,798) as of September 30, 2016.

Additionally, the Company has disputes qualified as eventual, which are currently in proceedings before judicial, administrative and arbitration bodies. These contingencies have not been provisioned. During the third quarter of 2016, the financial claims increased by 33.7% from US$46,510 (COP$133,952,858) at June 30, 2016 to US$62,181 (COP$179,087,576) at September 30, 2016.

Note 23 – Other Financial and Operating Information

a. EBITDA [(a)]

	Period from January 1 to September 30,				Variation
	2016		2015		Percentage
	(in *thousands of* US$)	(in *thousands* of COP$)	(in *thousands of* US$)	(in *thousands* of COP$)	%
Net loss	(140,872)	(405,720,343)	(11,350)	(32,688,154)	1141.2%
Plus:					
Depreciation and amortization	253,476	730,031,315	251,528	724,420,917	0.8%
Financial expenses, net	219,466	632,077,625	181,960	524,057,540	20.6%
Income tax [(b)]	51,944	149,601,955	(15,939)	(45,906,376)	(425.9%)
EBITDA	**384,014**	**1,105,990,552**	**406,199**	**1,169,883,927**	**(5.5%)**

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

Note 23 – Other Financial and Operating Information (continued)

b. EBITDA Margin

	Period from January 1 to September 30, 2016	2015
EBITDA margin [(a)]	31.3%	34.8%

(a) Represents EBITDA divided by net revenues

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

As of December 31, 2015, the company surpassed the senior bond incurrence covenant threshold, condition limiting its capacity to raise debt up to US$300 Million. As of September 30, 2016 the company has disbursed US$186,253 (COP$536,423,267) of additional debt, remaining available US$113,747 (COP$ 327,600,733).

d. Accesses

	2015				2016		
Figures in thousands	**March 31**	**June 30,**	**September 30,**	**December 31,**	**March 31**	**June 30,**	**September 30,**
Final Clients Accesses	15,777	15,308	15,588	15,825	15,977	16,161	16,503
Fixed Telephony *(1)*	1,466	1,451	1,448	1,431	1,414	1,403	1,389
Internet and Data *(2)*	997	1,000	1,013	1,009	1,008	1,012	1,025
Broadband (3)	989	991	1,004	1,000	1,000	1,003	1,003
Pay TV	429	444	471	489	497	520	532
Mobile *(4)*	12,885	12,413	12,656	12,897	13,057	13,226	13,557
Prepaid	9,633	9,159	9,342	9,511	9,625	9,730	10,019
Postpaid	3,252	3,255	3,314	3,386	3,432	3,496	3,538
Total Accesses	**15,779**	**15,310**	**15,589**	**15,826**	**15,978**	**16,162**	**16,504**

(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

	2015				2016		
Figures in pesos	**March 31**	**June 30,**	**September 30,**	**December 31,**	**March 31**	**June 30,**	**September 30,**
Fixed Telephony (1)	29,980	29,604	29,271	29,495	27,068	27,386	27,730
Broadband (2)	30,498	30,761	30,830	30,910	30,704	31,141	32,130
Pay TV	35,602	35,881	36,197	36,760	41,060	40,729	41,511
Total Mobile (3)	15,562	15,610	15,721	15,807	15,148	14,939	15,010
Prepaid	4,224	4,260	4,414	4,516	4,057	4,017	4,045
Postpaid	49,142	48,740	48,358	48,153	46,236	45,501	45,697

(1) Includes only monthly fixed fees
(2) Excludes revenues from data and capacity rental
(3) Excludes revenues from MVNO and sales of mobile equipment

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

Between September 30, 2016, 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.