

INTERIM FINANCIAL STATEMENTS

Colombia Telecomunicaciones S.A. ESP

At June 30, 2017 and for the six-month period ended
June 30, 2017

Erratum August 02, 2017 to Note 23 – Other Financial and Operating Information

Net Debt to EBITDA Ratio (Senior notes covenant)

Original Text:

The company exceeds the covenant of the financial leverage of Net Debt on EBITDA of 3,75x and has consumed US\$92,319 (COP\$281,614,020) of additional debt allowed, US\$300,000, under the Offering Memorandum of the senior notes of 2012, as of June 30th, 2017 remaining available debt is US\$207,680 (COP\$633,514,980)

Amendment:

The company exceeds the covenant of the financial leverage of Net Debt on EBITDA of 3,75x and has consumed US\$207,681 (COP\$633,514,980) of additional debt allowed, US\$300,000, under the Offering Memorandum of the senior notes of 2012, as of June 30th, 2017 remaining available debt is US\$92,319 (COP\$281,614,020).

Colombia Telecomunicaciones S.A. ESP
Interim Financial Statements

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Colombia Telecomunicaciones S.A. ESP
Interim Statements of Financial Position
Unaudited Figures

	Notes	At June 30,		At March 31,	
		2017			
		(in thousands of US\$(^a)	(in thousands of COP\$)	(in thousands of US\$(^a)	(in thousands of COP\$)
Assets					
Current Assets:					
Cash and cash equivalents		28,679	87,482,826	19,386	59,135,115
Financial assets	(4)	177,961	542,857,578	131,642	401,565,367
Trade and other accounts receivables, net	(5)	253,867	774,404,015	245,718	749,546,618
Prepaid expenses	(6)	33,963	103,602,669	16,818	51,300,883
Inventories	(7)	42,114	128,466,859	35,350	107,833,606
Taxes and public administrations	(8)	77,593	236,691,393	66,358	202,420,779
Total current assets		614,177	1,873,505,340	515,272	1,571,802,368
Non-current assets:					
Financial assets	(4)	56,702	172,964,184	54,408	165,968,546
Trade and other accounts receivables, net	(5)	61,089	186,347,052	50,403	153,749,467
Prepaid expenses	(6)	13,439	40,994,455	14,204	43,327,529
Property, plant and equipment, net	(9)	1,488,201	4,539,653,053	1,497,868	4,569,140,934
Intangibles	(10)	296,245	903,674,411	315,945	963,767,983
Goodwill		307,879	939,163,377	307,878	939,163,377
Deferred taxes	(11)	364,403	1,111,587,169	380,175	1,159,697,612
Total non-current assets		2,587,958	7,894,383,701	2,620,881	7,994,815,448
Total assets		3,202,135	9,767,889,041	3,136,153	9,566,617,816
Liabilities					
Current liabilities:					
Financial obligations	(12)	182,427	556,479,295	218,991	668,016,141
Other financial obligations - Parapat	(12)	227,004	692,458,776	167,902	512,173,158
Suppliers and accounts payable	(13)	378,146	1,153,509,046	357,635	1,090,941,442
Taxes and public administrations	(8)	79,409	242,232,609	44,819	136,717,373
Deferred liabilities		30,796	93,941,434	30,960	94,441,816
Provisions	(14)	49,335	150,492,477	46,955	143,234,082
Total current liabilities		947,117	2,889,113,637	867,262	2,645,524,012
Non-current liabilities:					
Financial obligations	(12)	1,176,318	3,588,275,582	1,142,071	3,483,808,176
Other financial obligations - Parapat	(12)	1,141,591	3,482,343,491	1,162,063	3,544,792,527
Suppliers and accounts payable	(13)	66,612	203,196,678	68,904	210,186,834
Deferred liabilities		27,918	85,163,194	17,467	53,281,574
Provisions		17,510	53,412,116	17,373	52,994,538
Deferred taxes	(11)	84,123	256,611,257	63,552	193,862,005
Total non-current liabilities		2,514,072	7,669,002,318	2,471,430	7,538,925,654
Total liabilities		3,461,189	10,558,115,955	3,338,692	10,184,449,666
Shareholder's equity, net	(15)	(259,054)	(790,226,914)	(202,539)	(617,831,850)
Total liabilities and shareholder's equity		3,202,135	9,767,889,041	3,136,153	9,566,617,816

(a) Solely for the convenience of the reader, Colombian pesos amounts at June 30 and March 31, 2017, have been translated into U.S. dollars at the exchange rate formed in the interbank market at on June 30, 2017 of COP\$3,050.43 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 June 30,			
		2017		2016	
		(in thousands of US\$) ^(a)	(in thousands of COP\$)	(in thousands of US\$) ^(a)	(in thousands of COP\$)
Operating revenue:					
Sales and services provision, net	(16)	783,296	2,389,389,125	763,548	2,329,149,623
Other operating revenue	(16)	17,896	54,589,558	20,620	62,899,148
		801,192	2,443,978,683	784,168	2,392,048,771
Operating costs and expenses	(17)	(549,383)	(1,675,853,073)	(549,069)	(1,674,898,026)
Operating income before depreciation and amortization – OIBDA		251,809	768,125,610	235,099	717,150,745
Depreciation and amortization	(18)	(174,362)	(531,880,235)	(159,797)	(487,449,884)
Operating income		77,447	236,245,375	75,302	229,700,861
Financial expenses, net	(19)	(62,775)	(191,489,807)	(45,692)	(139,380,790)
Interest expenses – Parapat	(19)	(76,216)	(232,493,073)	(81,075)	(247,313,294)
Profit before wealth tax		(61,544)	(187,737,505)	(51,465)	(156,993,223)
Wealth tax	(20)	(1,114)	(3,398,738)	(2,699)	(8,234,374)
Profit before taxes		(62,658)	(191,136,243)	(54,164)	(165,227,597)
Income and deferred tax	(20)	(55,833)	(170,313,857)	(22,898)	(69,847,267)
Net (loss) profit of the period		(118,491)	(361,450,100)	(77,062)	(235,074,864)
Other comprehensive income:					
Profit (loss) in hedge valuation, net of tax		8,325	25,393,768	15,077	45,990,781
Revaluation of land and buildings, net of tax		(465)	(1,389,573)	(975)	(2,974,704)
Other comprehensive income		7,869	24,004,195	14,102	43,016,077
Total (Loss) comprehensive profit of the period		(110,622)	(337,445,905)	(62,960)	(192,058,787)

(a) Solely for the convenience of the reader, Colombian pesos amounts for the six-month period ended June 30, 2017 and June 30, 2016 have been translated into U.S. dollars at the exchange rate formed in the interbank market on June 30, 2017 of COP\$3,050.43 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
	<i>(In thousands of US\$) ^(a)</i>							
Balances at December 31st, 2016	477	1,111,078	11,836	414,056	131,073	23,150	(1,810,018)	(118,348)
Equity perpetual instruments' coupon	-	-	-	-	-	-	(20,286)	(20,286)
Net loss of the period	-	-	-	-	-	-	(54,106)	(54,106)
Depreciation and real estate revaluation write-offs (Note 9)	-	-	-	-	(732)	-	-	(732)
Hedges valuation, net	-	-	-	-	-	(4,802)	-	(4,802)
Deferred tax	-	-	-	-	293	(4,558)	-	(4,265)
Balances at March 31st, 2017	477	1,111,078	11,836	414,056	130,634	13,790	(1,884,410)	(202,539)
Net loss of the period	-	-	-	-	-	-	(64,384)	(64,384)
Depreciation and real estate revaluation write-offs (Note 9)	-	-	-	-	(750)	-	-	(750)
Hedges valuation, net	-	-	-	-	-	(1,624)	-	(1,624)
Deferred tax (Note 11)	-	-	-	-	295	9,948	-	10,243
Balances at June 30st, 2017	477	1,111,078	11,836	414,056	130,179	22,114	(1,948,794)	(259,054)

(a) Solely for the convenience of the reader, Colombian pesos amounts at June 30 and March 31, 2017 and December 31, 2016 have been translated into U.S. dollars at the exchange rate formed in the interbank market at on June 30, 2017 of COP\$3,050.43 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
	<i>(In thousands of COP\$)</i>							
Balances at December 31st, 2016	1,454,871	3,389,266,946	36,105,611	1,263,049,667	399,831,128	70,615,487	(5,521,336,695)	(361,012,985)
Equity perpetual instruments' coupon	-	-	-	-	-	-	(61,879,789)	(61,879,789)
Net loss of the period	-	-	-	-	-	-	(165,050,841)	(165,050,841)
Depreciation and real estate revaluation write-offs (Note 9)	-	-	-	-	(2,232,970)	-	-	(2,232,970)
Hedges valuation, net	-	-	-	-	-	(14,643,597)	-	(14,643,597)
Deferred tax	-	-	-	-	893,189	(13,904,857)	-	(13,011,668)
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 (Note 11)	-	-	-	-	893,188	30,346,947	-	31,240,135
Balances at June 30st, 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)

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	Period from January 1 to June 30,			
	2017	2016	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	865,406	2,639,861,546	823,884	2,513,200,712
Cash paid to suppliers and other accounts payables	(553,915)	(1,689,677,688)	(575,955)	(1,756,910,548)
Net interests paid and other financial expenses	(62,564)	(190,845,691)	(42,997)	(131,160,602)
Consideration share to Parapat	(24,617)	(75,091,143)	(81,075)	(247,313,294)
Indirect taxes paid	(15,352)	(46,831,090)	(32,962)	(100,548,512)
Wealth tax	(1,114)	(3,398,739)	(2,699)	(8,234,374)
Self-withholdings on Income Tax and income tax for equality CREE (21)	(25,671)	(78,307,537)	(28,128)	(85,801,416)
Net cash provided for operating activities	182,173	555,709,658	60,068	183,231,966
Net cash flows in investment activities				
Payments for investments in the plant and equipment and intangible assets	(171,946)	(524,510,298)	(130,269)	(397,375,042)
Collections from temporary financial investments	-	-	46	139,748
Payments for temporary financial investments	-	-	(30)	(92,600)
Net cash used for investment activities	(171,946)	(524,510,298)	(130,253)	(397,327,894)
Net Cash flows in financing activities				
Perpetual equity instruments coupon's payment	(20,286)	(61,879,788)	(24,688)	(75,310,248)
New financial debt	60,305	183,957,538	50,890	155,237,394
Collections from exchange rate hedges	(12,983)	(39,604,585)	7,987	24,364,661
Financial debt payments	(75,814)	(231,271,160)	(45,690)	(140,854,985)
Capital amortization of Parapat	(3,141)	(9,580,085)	(486)	
Net cash used for financing activities	(51,919)	(158,378,080)	(11,986)	(36,563,178)
Net decrease of cash and cash equivalents	(41,692)	(127,178,720)	(82,172)	(250,659,106)
Cash and cash equivalents at January 1,	70,371	214,661,546	95,904	292,547,137
Cash and cash equivalents at June 30,	28,679	87,482,826	13,732	41,888,031

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

Balance at January 1,	70,371	214,661,546	95,904	292,547,137
Cash on hand and at banks	49,642	151,429,174	73,816	225,171,083
Other cash equivalents	20,729	63,232,372	22,088	67,376,054
Balance at June 30,	28,679	87,482,826	13,732	41,888,031
Cash on hand and at banks	23,439	71,498,174	7,587	23,143,657
Other cash equivalents	5,240	15,984,652	6,145	18,744,374

(a) Solely for the convenience of the reader, Colombian pesos amounts for the six-month period ended June 30, 2017 and June 30, 2016 have been translated into U.S. dollars at the exchange rate formed in the interbank market on June 30, 2017 of COP\$3,050.43 to US\$1.00.

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

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Notes to Interim Financial Statements

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At June 30st, 2017 and for the six-month period ended June 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 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.

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 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.

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 June 30, 2017 of COP\$3,050.43 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.

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Note 2 – Basis of accounting (continued)

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 value 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, avoiding incurring on bid-offer spread costs on hedging operations.

The main financial risk management objectives and policies of the Company at June 30, 2017, and for the six-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, 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 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.

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Note 2 – Basis of accounting (continued)

- **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 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 by 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 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 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.

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Note 2 – Basis of accounting (continued)

- **Impairment of non-current assets (continued)**

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.

The net asset value is 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 shows 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 has 18 months to adopt such measures that may be necessary to avoid the Company's dissolution, term expiring in September of 2018.

The Company's management, together with the support of its shareholders, are continuing to implement the actions that were established and reported in the Financial Statements as of December 31, 2016, in order to remedy this situation and strengthen the Company's assets, ensuring the capacity to continue as a going concern.

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Note 3 – Significant Events (continued)

b) Parapat 2017 installments

On April 3, 2017, May 31st, 2017 and July 31st, 2017 as a part of the capitalization process the company asked for April, June and August-October PARAPAT installments waiver respectively, to Fiduciary *Fiduagraria* which manages the PARAPAT's autonomous assets, granted the company the waiver to the obligation to pay the installments that expires on April 3rd, July 1st, August 1st and October 2nd of the same year, and granted the company the last day of October of the same year as the maximum payment date.

c) Capitalization

The process of capitalization of the Company continued progressing in recent months, the government continued advancing. On June 30th a law was approved by the Colombian Congress to allow the government to subscribe the capital increase, in accordance with their shareholding, in order to prepay the obligations with PARAPAT. The next step in the process is the approval of some internal government requirements, once they have been fulfilled with a shareholder meeting should be held in order to approve the capital increase.

d) Preliminary arbitral award under Colombian court system

Last July 25, 2017 the preliminary arbitration award of an arbitration initiated by the Ministry of Information and Communications in connection with the potential reversibility of certain assets under mobile former concessions was released.

At the time of the publication of this report, the shareholders are still analyzing the implications of such arbitral award.

The preliminary arbitral award condemns the Company to pay COP\$1.652.981.000 within 15 working days as of the date on which the arbitral award comes into full force. On August 4, 2017, the alterations and supplements hearing to the arbitral award requested by the Company on July 31, 2017 will be held. Upon this date, the arbitral award will be in force and the period laid down for the payment shall start; period expires on August 29, 2017.

Notwithstanding the foregoing, the Company has at its disposal a variety of additional legal defense mechanisms in connection to the arbitral award.

The Company is working in parallel in the petition for suspension and the appeal for annulment of the arbitral award. The petition for suspension could be filed as of August 4, 2017 once the arbitral award comes into full force. Colombian Law on arbitration allows to request a petition for suspension of the arbitral award enforcement considering the status of decentralized company (due its public shareholding) and its classification as utility service provider. The petition for annulment could be filed 30 days after the enforcement of the award.

In addition, the Company is analyzing other legal actions such as an action for review of the arbitral award and other constitutional actions which expiry periods are 6 and 12 months respectively.

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Note 3 – Significant Events (continued)

e) Macroeconomic Environment

• **Inflation**

Annual inflation in June was 3.99% LTM, reaching the Central Bank target range for the first time since January 2015. Year to date inflation stood at 3.35%, 175 bps lower than the one of 2016. This deceleration was explained by the performance of food inflation, which was negative in June (0.21% MoM), equivalent to an annual inflation of 1.37% LTM due to the recovery of food supply after the climatic phenomenon “El Niño”. On the other hand, non-food inflation remains above the target range with annual inflation of 5.12% LTM. This behavior is mainly explained by the non-tradable inflation which remained above 5% LTM, due to indexation effect meaning some agents adjusted their prices to last year’s inflation, but offset by tradable goods inflation which declined (4.4% LTM vs. 7.9% LTM in June 2016) due to the appreciation of the Colombian peso, which was partially offset by the effects of the tax reform in the first quarter of the year.

• **Interest rate**

In the second quarter of 2017, the Central Bank’s Board of Directors reduced the interest rate by 125 bps, standing at 5.75% in June 2017 (one reduction of 25 bps in May and two reductions of 50 bps in April and June), completing 175 bps as of June 30st, 2017. In the first part of the year the monetary policy was motivated to controlled inflation pressures, which were somehow partially anchored; in the second part of the year, considering recent GDP leading indicators signaling a slowdown in the economy, the priorities were switched to stimulate the economy growth through a more dovish tone in the monetary policy.

• **Exchange rate**

The average exchange rate during the first semester of 2017 was COP\$2,922.32 per US\$1.00, 6.5% lower than the one observed during the same period of 2016 (COP\$3,126.03 per US\$1.00). The annual appreciation of the Colombian peso was mainly explained by a better performance of oil prices due to the favorable impacts of Vienna’s agreement and better Colombia’s risk perception due to the approval of tax reform in December of 2016. In fact, according with EIA (Energy Information Administration), in the first semester of 2017 WTI prices increased 26% YoY (USD 49.84 per barrel in 1H17 vs USD 39.55 in 1H16 per barrel). Likewise, Colombian country risk reduced in 44% YoY, equivalent to 108 bps (137 bps in average 1H of 2017 vs 245 bps in average 1H of 2016), according to 5 years Credit Default Swap.

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Note 4 – Financial Assets

The breakdown of the current financial assets is the following:

	At June 30,		At March 31,	
	2017			
	(in thousands of US\$)	(in thousands of COP\$)	(in thousands of US\$)	(in thousands of COP\$)
Current financial assets				
Hedging derivatives (a)	177,961	542,857,578	131,639	401,554,760
Deposits and guaranteed	-	-	3	10,607
Current financial assets	177,961	542,857,578	131,642	401,565,367
Other equity participation (b)	46,438	141,655,989	46,438	141,655,989
Deposits and guaranteed	3,839	11,708,142	2,439	7,438,665
Hedging derivatives (a)	6,425	19,600,053	5,531	16,873,892
Non-current financial assets	56,702	172,964,184	54,408	165,968,546
Total financial assets	234,663	715,821,762	186,050	567,533,913

- (a) The derivatives portfolio valuation in the total financial asset shows an increase of 34.4%, or US\$47,216 (COP\$144,028,979) mainly explained by: i) An increase in the exchange rate valuation of Full CIRS by US\$25,754 (COP\$78,562,249) due to exchange rate devaluation of 5.7% during the period; ii) Increase in the exchange rate valuation of non-delivery-forwards by US\$10,072 (COP\$30,723,070) due to the exchange rate devaluation during the period; iii) An increase in the interest rate valuation of the IRS (USD currency) by US\$5,126 (COP\$15,635,727) due to the downward movement of the IRS curve; iv) An increase in the interest rate valuation of the Margin CIRS in US\$4,506 (COP\$13,746,695) due to the exchange rate devaluation of the period; v) Increase in valuation of USD currency Options by US\$1,682 (COP\$5,131,507) and vi) decrease in Credit Valuation Adjustment provision affecting positively the financial asset by US\$ 75 (COP\$229,731).
- (b) Under the Parapat Operating Agreement, there is a number of assets represented as financial holdings in the Empresa de Telecomunicaciones de Bucaramanga S.A. E.S.P., Metropolitana de Telecomunicaciones S.A. ESP and Telecom USA. Such shares will be owned by Colombia Telecomunicaciones S.A. ESP, provided that the conditions for its handover have been fulfilled, in accordance with the provisions of the Operating Agreement.

The Company does not control or exercise any significant influence on the financial, operating or control policies for key decisions regarding the costs, expenses, purchases and annual budgets of the companies. The profits obtained by these companies do not flow to the Company. Based on the foregoing and considering that the necessary conditions are not complied with in accordance with IFRS 10 and IAS 28, these companies are not considered subsidiaries or associates and are therefore are recognized as financial instruments.

These shares are measured at fair value and are valued through the discounted future cash flows method at the end of each year. After initial recognition, these shares are measured at fair value through profit or loss, the impairment resulting from the valuation is recognized as a financial expense in the statement of comprehensive income; as of June 30, 2017 there is no evidence of impairment.

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

Accounts receivable and other current accounts receivable increased by 3.3%, or US\$8,149 (COP\$24,857,397) and non-current, increased 21.2% or US\$10,686 (COP\$32,597,585) compared to the closing on March 31st, 2017.

	At June 30,		At March 31,	
	2017			
	(in thousands U.S. \$)	(in thousands COP\$)	(in thousands U.S. \$)	(in thousands COP\$)
Current				
Customers for sale and services provision (1)	357,457	1,090,401,683	348,979	1,064,536,752
Commercial agents and distribution channels	50,262	153,320,509	49,546	151,136,629
Portfolio for handsets	45,807	139,732,385	46,429	141,627,232
Portfolio with domestic operators	34,731	105,943,777	33,266	101,474,405
Shareholders, related parties and associated companies (2)	18,297	55,813,190	16,688	50,906,281
Other debtors	15,894	48,482,507	15,682	47,838,178
Foreign debtors	3,038	9,265,895	2,359	7,194,554
Advance payments delivered	414	1,261,706	330	1,010,111
Impairment for doubtful collection portfolio	(272,033)	(829,817,637)	(267,561)	(816,177,524)
	253,867	774,404,015	245,718	749,546,618
Non-current				
Portfolio with domestic operators	44,129	134,610,499	44,128	134,610,499
Portfolio of grants and contributions	12,494	38,111,870	12,494	38,111,870
Shareholders, related parties and associated companies	12,712	38,778,590	11,434	34,877,270
Customers for sale and services provision (3)	48,164	146,921,909	38,757	118,225,644
Impairment for doubtful collection portfolio	(56,410)	(172,075,816)	(56,410)	(172,075,816)
	61,089	186,347,052	50,403	153,749,467
	314,956	960,751,067	296,121	903,296,085

(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 increased by 102.0% %, or US\$17,145 (COP\$52,301,786) compared to March 31, 2017 mainly due to an increase of technical support deferred expenses by US\$12,305 (COP\$37,535,719) and US\$2,970 (COP\$9,059,862) due to the second payment of the renewal of the 2017 fixed/mobile spectrum license.

Note 7 – Inventories

Inventories at the end of the second quarter of 2017 increased by of 19.1%, or US\$6,764 (COP\$20,633,253), compared to March 31st, 2017.

The breakdown is detailed as follows:

	At June 30,		At March 31,	
	2017			
	(in thousands of US\$)	(in thousands of COP\$)	(in thousands of US\$)	(in thousands of COP\$)
Mobile phones and accessories	36,666	111,808,702	26,323	80,297,428
Equipment in transit	4,016	12,250,915	8,844	26,977,354
Other inventories	2,056	6,309,710	1,021	3,114,692
Computer equipment	494	1,506,481	524	1,597,536
	43,232	131,875,808	36,712	111,987,010
Impairment loss of inventories	(1,118)	(3,408,949)	(1,362)	(4,153,404)
	42,114	128,466,859	35,350	107,833,606

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Note 8 – Taxes and Public Administrations

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

	At June 30,		At March 31,	
	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)	50,056	152,691,665	-	-
Advance of surcharge of income tax for equality (CREE)	-	-	975	2,973,727
Self-withholding for income tax for equality CREE (b)	-	-	25,971	79,221,193
Self-withholding for income tax (c)	24,479	74,671,258	35,591	108,568,464
Advance payments, withholdings and self-withholding ICA (d)	2,604	7,941,752	1,444	4,405,842
Income tax withholdings (e)	404	1,232,727	2,329	7,105,104
Sales tax withholding	50	153,991	48	146,449
	77,593	236,691,393	66,358	202,420,779

The increase of US\$11,235 (COP\$34,270,614) at the end of June 30 of 2017, compared to the end of March 31 of 2017, is explained as follows:

- (a) Corresponds to the balance in favor of 2016 Income Tax Return of US\$25,281 (COP\$77,116,828) and 2016 CREE Tax Return of US\$24,775 (COP\$75,574,837) currently in settlement process which balance out the following tax liabilities: i) valued add tax by US\$41,591 (COP\$126,868,970) related to January to April tax settlements, ii) March and April's National Consumption tax settlement by US\$1,990 (COP\$6,069,863), and iii) April's withholdings to suppliers settlement by US\$6,457 (COP\$19,752,832).
- (b) Decrease by 100.0% due to appropriation of selfwithholdings for 2016 CREE Tax Return by US\$25,971 (COP\$79,221,193)
- (c) Decrease by 31.2% due to appropriation of selfwithholdings for 2016 Income Tax Return by US\$23,871 (COP\$72,815,953), offset by the accrual of US\$12,759 (COP\$38,918,747) second quarter self withholdings
- (d) Increase by 80.3%, or US\$1,160 (COP\$3,535,910), due to accruals of advanced payments, withholdings and selfwithholdings of Industry and CommerceTax –ICA- for the seconds quarter of 2017.
- (e) Decrease by 82.7% or US\$1,925 (COP\$5,872,377) mainly due to the appropriation of withholdings to suppliers to 2016 Income Tax Return.

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

	At June 30,		At March 31,	
	2017			
	(in thousands of US\$)	(in thousands of COP\$)	(in thousands of US\$)	(in thousands of COP\$)
Sales tax proportionality – VAT (a)	58,591	178,728,474	33,876	103,335,118
National consumption tax (b)	3,890	11,865,609	1,072	3,271,268
Withholdings and self-withholdings (c)	14,825	45,221,101	8,658	26,409,338
Surcharges and stamps	161	490,233	140	427,415
Wealth Tax (d)	1,114	3,398,738	-	-
Municipal taxes	828	2,528,454	1,073	3,274,234
	79,409	242,232,609	44,819	136,717,373

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Note 8 – Taxes and Public Administration (continued)

Increase of US\$34,590 (COP\$105,515,236), at the end of June 30 of 2017, compared to the end of March 31 of 2017, is explained as follows:

- (a) An increase of 73.0%, or US\$24,715 (COP\$75,393,356), in valued add tax due to May a June accrual. At June 30, 2017, US\$41.591 (COP\$126,868,970) of the total amount due is offset by the balances in favor of the 2016 Income Tax Return and CREE Tax Return, currently under settlement process.
- (b) Increase of National Consumption Tax by US\$2,818 (COP\$8,594,341) due to May and June accrual. At June 30, 2017, US\$1,990 (COP\$6,069,863) of the total amount due is offset by the balance in favor of the 2016 Income Tax Return, currently under settlement process.
- (c) an increase of US\$6,167 (COP\$18,811,763) in withholdings and selfwithholdings compared to March, 2017. At June 30, 2017 US\$6,457 (COP\$19,752,832) of the total amount due is offset by the balance in favor of the 2016 Income Tax Return, currently under settlement process.
- (d) Corresponds to the accrual of the second installement of the Wealth tax

Note 9 – Property, Plant and Equipment

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

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Note 9 - Property, Plant and Equipment (continued)

Concept	Balance at March 31, 2017	Acquisitions / Addition	Retirements	Transfers	Revaluation(1)	Balance at June 30, 2017
Cost:						
	<i>(In thousands of US\$)</i>					
Land and construction	\$ 1,003,515	\$ 1,243	\$ (21)	\$ 1,661	\$ (18)	\$ 1,006,380
Technical installations, machinery and others equipment	2,661,422	22,861	(1,403)	31,193	-	2,714,073
Equipment under construction and assembly	118,435	28,377	(4)	(29,935)	-	116,873
Furniture, equipment management of information and miscellaneous	213,808	1,208	(252)	668	-	215,432
	\$ 3,997,180	\$ 53,689	\$ (1,680)	\$ 3,587	\$ (18)	\$ 4,052,758
Accumulated depreciation:						
Constructions	(525,373)	(11,642)	16	-	(732)	(537,731)
Technical installations, machinery and other equipment	(1,815,199)	(49,896)	1,132	-	-	(1,863,963)
Furniture and equipment of information	(158,740)	(4,334)	211	-	-	(162,863)
	(2,499,312)	(65,872)	1,359	-	(732)	(2,564,557)
	\$ 1,497,868	\$ (12,183)	\$ (321)	\$ 3,587	\$ (750)	\$ 1,488,201
Cost:						
	<i>(In thousands of COP\$)</i>					
Land and construction	\$ 3,061,151,146	\$ 3,790,695	\$ (62,621)	\$ 5,066,996	\$ (55,686)	3,069,890,530
Technical installations, machinery and others equipment	8,118,480,736	69,733,629	(4,279,424)	95,153,299	-	8,279,088,240
Equipment under constructions and assembly	361,277,746	86,560,197	(11,479)	(91,312,841)	-	356,513,623
Furniture, equipment management of information and miscellaneous	652,206,004	3,685,871	(768,844)	2,033,652	-	657,156,683
	\$ 12,193,115,632	\$ 163,770,392	\$ (5,122,368)	\$ 10,941,106	\$ (55,686)	\$ 12,362,649,076
Accumulated depreciation:						
Constructions	(1,602,612,274)	(35,513,592)	44,335	-	(2,227,075)	(1,640,308,606)
Technical installations, machinery and other equipment	(5,537,136,775)	(152,203,502)	3,452,528	-	-	(5,685,887,749)
Furniture and equipment of information	(484,225,649)	(13,219,156)	645,137	-	-	(496,799,668)
	(7,623,974,698)	(200,936,250)	4,142,000	-	(2,227,075)	(7,822,996,023)
	\$ 4,569,140,934	\$ (37,165,858)	\$ (980,368)	\$ 10,941,106	\$ (2,282,761)	\$ 4,539,653,053

(1) Revaluation of real state

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Note 9 - Property, Plant and Equipment (continued)

The Company opted for subsequent measurement using the revaluation model to record at fair value land and buildings as of December 31, 2014. Studies were conducted in November and December of 2014 by external consultants (Price Waterhouse Coopes 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 account 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 June 30, 2017 and the movement of intangibles assets during the second quarter of 2017, were as follows:

Concept	Balance at March 31, 2017	Acquisitions / Addition	Retirements	Transfers	Balance at June 30, 2017
Cost:					
			<i>(In thousands of US\$)</i>		
Operating licenses	\$ 417,596	\$ -	\$ (185,749)	\$ -	\$ 231,847
Computer applications	540,008	7,199	-	1,527	548,734
Customers list	203,760	-	-	-	203,760
Other intangibles	27,129	417	-	385	27,931
Intangible assets in development	8,816	(2,114)	-	(5,499)	1,203
	\$ 1,197,309	\$ 5,502	\$ (185,749)	\$ (3,587)	\$ 1,013,475
Accumulated amortization					
Operating licenses	\$ (264,351)	(5,673)	185,749	-	(84,276)
Computer applications	(403,281)	(15,687)	-	-	(418,968)
Customers list	(203,760)	-	-	-	(203,760)
Other intangibles	(9,972)	(254)	-	-	(10,226)
	(881,364)	(21,614)	185,749	-	(717,230)
	\$ 315,945	\$ (16,112)	\$ -	\$ (3,587)	\$ 296,245

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Note 10 – Intangibles Assets (continued)

Concept	Balance at March 31, 2017	Acquisitions / Addition	Retirements	Transfers	Balance at June 30, 2017
<i>(In thousands of COP\$)</i>					
Cost:					
Operating licenses(1)	\$ 1,273,848,073	\$ -	\$ (566,612,981)	\$ -	\$ 707,235,092
Computer applications(2)	1,647,256,257	21,961,314	(1)	4,658,081	1,673,875,651
Customers list(3)	621,555,372	-	-	-	621,555,372
Other intangibles	82,754,191	1,272,499	-	1,174,839	85,201,529
Intangible assets in development	26,892,041	(6,447,824)	-	(16,774,026)	3,670,191
	\$ 3,652,305,934	\$ 16,785,989	\$ (566,612,982)	\$ (10,941,106)	\$ 3,091,537,835
Accumulated amortization					
Operating licenses	(806,384,028)	(17,305,948)	566,612,981	-	(257,076,995)
Computer applications	(1,230,181,883)	(47,852,478)	1	-	(1,278,034,360)
Customers list	(621,555,372)	-	-	-	(621,555,372)
Other intangibles	(30,416,668)	(780,029)	-	-	(31,196,697)
	(2,688,537,951)	(65,938,455)	566,612,982	-	(2,187,863,424)
	\$ 963,767,983	\$ (49,152,466)	\$ -	\$ (10,941,106)	\$ 903,674,411

- (1) Corresponds to a 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.
- (2) Corresponds to acquired software applications for the Company's different technological platforms.
- (3) Mainly includes the payments made by the Company for the rights to use the infrastructure of ISA (Interconexión Eléctrica S.A.) on a fiber optic ring.

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 4,1% or US\$15,772 (COP\$48,110,443) compared to the first quarter, mainly as result of :

- (a) a decrease by US\$22,321 (COP\$68,086,714) due to the use of temporary differences related to the Parpat and estimates of liabilities and provisions recorded as of June 30, 2017.
- (b) Increase by US\$6,271 (COP\$19,135,087) due to the recomposition of tax credits with respecto to acumulated tax losses, in accordance to fiscal income as of June 30th, 2017.
- (c) Increase by US\$278 (COP\$841,184) due to the depreciation of the revalued cost of the real estate of the PARAPAT contract with consideration in other comprehensive income..

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Note 11 - Deferred Tax (continued)

Deferred Tax Liabilities

Deferred tax liabilities decreased by 32.4% or US\$20,571 (COP\$62,749,252) compared to June 30, 2017, as a result of the following:

- (a) Increase by US\$15,198 (COP\$46,359,167) due to the use of taxable temporary differences, mainly generated by the valuation of hedges with effect in the Comprehensive Income Statement
- (b) Increase by US\$5,390 (COP\$16,442,089) 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\$17 (COP\$52,004) due to the depreciation of the revalued cost of own properties with consideration in Other Comprehensive Income.

Note 12 – Financial Obligation and Other Financial Obligations

Financial obligations, including PARAPAT, totaled US\$2,727,339 (COP\$8,319,557,145) as of June of 2017, showing an increase of 1.3% or US\$36,312 (COP\$110,767,144) compared to March 2017. The PARAPAT obligation totaled US\$1,368,595 (COP\$4,174,802,267), increasing US\$38,629 (COP\$117,836,582), compared to March 31, 2017.

	At June 30,		At March 31,	
	2017			
	(in thousands of US\$)	(in thousands of COP\$)	(in thousands of US\$)	(in thousands of COP\$)
Current				
Financial obligations (a)	152,417	464,936,747	184,576	563,035,155
Hedging instruments (d) ⁽¹⁾	15,005	45,771,588	29,890	91,176,364
Other financial obligations (interests)	15,005	45,770,960	4,525	13,804,622
Other financial obligations - PARAPAT (c)	227,004	692,458,776	167,902	512,173,158
Total Current	409,431	1,248,938,071	386,893	1,180,189,299
Non - current				
Financial obligations (b)	1,175,658	3,586,258,990	1,141,014	3,480,586,699
Hedging Instruments (d) ⁽¹⁾	661	2,016,593	1,056	3,221,477
Other financial obligations - PARAPAT (c)	1,141,591	3,482,343,491	1,162,063	3,544,792,527
Total Non-current	2,317,910	7,070,619,074	2,304,133	7,028,600,703
Total financial debt	2,727,341	8,319,557,145	2,691,026	8,208,790,002

(1) See, *Hedging instruments*

- a) Decrease in short-term financial debt with credit institutions for US\$32,159 (COP\$98,098,408) due to debt amortizations by US\$66,629 (COP\$203,248,349), compensated by i) new debt agreements by US\$22,748 (COP\$69,392,538), ii) Long-term to short-term reclassifications of US\$7,413 (COP\$22,613,066), and iii) increase of US\$4,309 (COP\$13,144,338) associated with exchange rate differences and others.
- b) Increase in long-term financial debt with credit institutions and bonds for US\$34,642 (COP\$105,672,291) due to increase of US\$41,970 (COP\$128,025,887) associated with exchange rate differences and long-term to short-term reclassifications and others of US\$7,328 (COP\$22,353,596).

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

Senior bond	At June 30,		At March 31,	
	2017			
	(in thousands of US\$)	(in thousands of COP\$)	(in thousands of US\$)	(in thousands of COP\$)
Senior Bond				
Face value	750,000	2,287,822,500	709,466	2,164,177,500
Transaction of cost	(1,817)	(5,543,593)	(1,902)	(5,803,062)
Total Senior Bond	748,183	2,282,278,907	707,564	2,158,374,438

The net variation in long-term bonds was US\$40,619 (COP\$123,904,469), associated with exchange rate devaluation of 5.7%. The bonds nominal value is shown net of the issuance cost.

In addition, the net variation in other financial debt with credit institutions was US\$1,430 (COP\$4,380,887), also associated with exchange rate variations.

- c) Increase of the PARAPAT debt worth US\$38,630 (COP\$117,836,582) including accrual interest of US\$37,760 (COP\$115,185,001) and interests on arreas of US\$869 (COP\$2,651,582).
- d) Decrease in the short-term valuation of derivatives of US\$14,885 (COP\$45,404,776), explained mainly to i) a decrease in the exchange rate valuation of non-delivery forward and USD currency options by US\$17,849 (COP\$54,446,846) associated to the devaluation of the exchange rate of the period by 5.7%; offset by i) Increase in the interest rate valuation by US\$2,610 (COP\$7,961,035), associated with a downward movement in the forward curve, ii) decrease in Debit Valuation Adjustment provision affecting positively the financial obligation in of US\$354 (COP\$1,081,035).

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), 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 explained by exchange rate valuation (financial and commercial operations) increase 60,3%, US\$54,779 (COP\$167,098,825), due to devaluation of Colombian Peso by 5,7% during the second quarter of 2017, The interest rate valuation increased 53,3%, US\$7,996 (COP\$24,391,118) mainly explained by an upward movement of the Libor Interest Rate Swap curve during the period.

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

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

	At June 30,		At March 31,	
	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⁾	134,616	410,635,457	88,416	269,706,013
Mark to market – exchange rate effect for commercial operations	4,579	13,967,218	(3,106)	-9,476,002
Mark to market – interest rate effect	23,667	72,195,811	16,066	49,009,577
CVA/DVA ⁽³⁾	94	287,504	373	1,138,808
Total short term, net (Note 4 and 12) ⁽²⁾	162,956	497,085,990	101,749	310,378,396
Long term				
Mark to market – Exchange rate effect for financial operations ⁽¹⁾	6,424	19,600,053	5,532	16,873,892
Mark to market – Interest rate effect	(661)	-2,016,593	(1,056)	-3,221,477
Total long term, net (Note 4 and 12) ⁽²⁾	5,763	17,583,460	4,476	13,652,415
Total mark to market	168,719	514,669,450	106,225	324,030,811
Breakdown by Effect				
Exchange rate effect				
Exchange rate effect for financial operations ⁽¹⁾	141,040	430,235,510	93,948	286,579,905
Exchange rate effect for commercial operations	4,579	13,967,218	-3,106	-9,476,002
Total exchange rate effect	145,619	444,202,728	90,842	277,103,903
Total interest rate effect	23,006	70,179,218	15,010	45,788,100
Total CVA/DVA ⁽³⁾	94	287,504	373	1,138,808
Total mark to market	168,719	514,669,450	106,225	324,030,811

(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 June 30,		At March 31,	
	2017			
	(in thousands of US\$)	(in thousands of COP\$)	(in thousands of US\$)	(in thousands of COP\$)
Current:				
Suppliers	241,870	737,808,887	219,584	669,826,853
Capital expenditures	70,056	213,700,162	72,930	222,467,336
Shareholders, related parties and foreign associated companies	60,899	185,768,034	57,404	175,105,612
Labor obligations	4,626	14,110,608	7,056	21,524,741
Others	695	2,121,355	661	2,016,900
	378,146	1,153,509,046	357,635	1,090,941,442
Non-current:				
Debt with public administrations (spectrum)	56,749	173,110,085	59,164	180,474,260
Deposits received from clients and others	9,863	30,086,593	9,740	29,712,574
	66,612	203,196,678	68,904	210,186,834
	444,758	1,356,705,724	426,539	1,301,128,276

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Note 14 –Provisions

Current provisions increased by US\$2,380 (COP\$7,258,395), or 5.1%, main variations are explained below:

- Increased in provisions for labor obligations of US\$3,223 (COP\$9,830,425).
- Decrease of fiscal provisions by US\$843 (COP\$2,752,030) mainly explained by the reduction of i) US\$2,173 (COP\$6,629,721) due to 2016 CREE Tax Return compensation, ii) royalties provision by US\$782 (COP\$2,385,587) and iii) payment of wealth tax first installment due in May, US\$541 (COP\$1,651,106). Total decrease was offset by the increase of Industry and Commerce Tax accrual by US\$2,759 (COP\$8,416,549).

Note 15 – Shareholder’s Equity, Net

Authorized, subscribed and paid capital at June 30th and March 31st of 2017, is presented as follows:

Share Capital

	In thousands of COP\$
Authorized capital	\$ 1,454,871
Subscribed and paid capital	1,454,871
Number of outstanding shares	1,454,870,740
Nominal value (in pesos)	1

The equity shares at June 30th and March 31st, 2017 is as follows:

Shareholders	Number of shares	Percentage %
Telefónica Latinoamérica Holding, S.L. (antes Telefónica Internacional S.A.U. - TISA) ⁽¹⁾	437,085,325	30,0428974
The Nation – Ministry of Finance and Public Credit	472,832,991	32,5000000
Latin America Cellular Holdings S.L.	275,602,636	18,9434448
Telefónica S.A.	269,339,586	18,5129564
Radio Televisión Nacional de Colombia-RTVC	10,000	0,0006873
Canal Regional de Televisión Ltda,- TEVEANDINA	200	0,0000137
Central de Inversiones S.A.-CISA	1	0,0000001
Terra Networks Colombia S.A,S.	1	0,0000001
	1,454,870,740	100,0000000%

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Note 16 – Operating Revenue

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

	Period from January 1 to June 30,				Variation
	2017	2016	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	212,529	648,303,381	144,528	440,874,042	47.0%
Monthly mobile voice fees and time on air	145,702	444,454,436	181,463	553,540,548	(19.7%)
Sales of mobile equipment	74,871	228,388,979	62,196	189,723,920	20.4%
Interconnection and roaming	24,362	74,314,467	36,081	110,063,916	(32.5%)
Carrier services – MVNO(1)	15,641	47,710,847	19,950	60,854,790	(21.6%)
Added value services (2)	16,183	49,365,059	18,688	57,007,326	(13.4%)
Mobile Operation Revenues	489,288	1,492,537,169	462,906	1,412,064,542	5.7%
Fixed Operation					
Data transmission services	123,685	377,293,321	115,096	351,091,077	7.5%
Fixed telephony and long distance	92,142	281,071,757	97,811	298,365,417	(5.8%)
Satellite television services	47,002	143,375,296	40,324	123,005,432	16.6%
IT and new services(3)	30,785	93,908,181	46,933	143,166,073	(34.4%)
Sales of equipment	394	1,203,401	478	1,457,082	(17.4%)
Fixed Operation Revenues	294,008	896,851,956	300,642	917,085,081	(2.2%)
Operating Income	783,296	2,389,389,125	763,548	2,329,149,623	2.6%
Other operation income (4)	17,896	54,589,558	20,620	62,899,148	(13.2%)
Total Operating Revenue	801,192	2,443,978,683	784,168	2,392,048,771	2.2%

(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 equipment applications and communication infrastructures and security management.

(4) Includes, among others, Government Grants, commercial support, rental of physical spaces and compensation for breach of contract.

Total revenues increased by 2.2% year-on-year from US\$784,168 (COP\$2,392,048,771) in the second quarter of 2016 to US\$801,192 (COP\$2,443,978,683) in the same period of 2017. Operating revenue reached US\$783,296 (COP\$2,389,389,125), a 2.6% year-on-year increase mainly driven by the mobile data business (+47.0% year-on-year and +6.2% quarter-on-quarter), sales of mobile equipment (+20.4% year-on-year) and satellite television (+16.6% year-on-year and +0.6% quarter-on-quarter) which offset lower revenues from other mobile services and other fixed services, as a result of regulatory changes and one-off IT projects carried on in 2016. Excluding regulatory and IT projects impact, total revenues would have grown 6.7%.

Mobile revenues reached US\$489,287 (COP\$1,492,537,169) at the end of the second quarter of 2017 a 5.7% 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, and Roaming voice and data rates from February 23, 2017, and mandatory discounts according to the amount of traffic (minutes and/or Kb) modifying MVNO-Host Operator contractual relation which resulted in rates reductions from February 1st, 2017. The growth in mobile revenue is mainly boosted by the increase in the postpaid business to customer revenues by 12.4% drove by commercial activity growth of 7.9% year-on-year and ARPU growth of 4.1%; and (ii) postpaid churn contention, decreasing from 1.8% in June 2016 to 1.5% in June 2017. Additionally, prepaid revenues also increased by 9.2% due to high acceptance of the comercial offering *Todo en Uno* and newest plan *Prepagada*, which has driven a change in the dynamics of the product.

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Note 16 – Operating Revenue (continued)

Fixed business revenues amounted to US\$294,008 (COP\$896,851,956) at the end of the second quarter, decreasing 2.2% year-on-year (-1.3% 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 4.4%. 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 47.0% year-on-year (+6.2% quarter-on-quarter) from US\$144,528 (COP\$440,874,042) at the end of second quarter of 2016 to US\$212,529 (COP\$648,303,381) at the end of second quarter of 2017, mainly explain by the year-on-year increase of data traffic of 70.1% (+8.5% 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 second quarter of 2017 subscribers' base over LTE network had reached 3.2 million, showing an exceptional growth of 91.6% year-on-year (+19.1% quarter-on-quarter).

Additionally, smartphones' customer base grew 20.8% year-on-year (+5.7% quarter-on-quarter). Onnet prepaid smartphones' penetration, reached 27.0% (+2.4% year-on-year and +0.2% quarter-on-quarter) as of June 2017 and postpaid smartphones' penetration reached 87.9%, (+13.8% year-on-year and +6.1% quarter-on-quarter) at the end of the second quarter of 2017.

- b) **Monthly mobile voice fees and time on air**, commercial activity had a highlighted performance showing a year-on-year subscribers' base increase of 4.1% (+1.22% quarter-on-quarter) from 13.2 million at the end of second quarter of 2016 to 13.7 million in the second quarter of 2017. Postpaid base increased 5.0% year-on-year (+1.2% quarter-on-quarter) meanwhile prepaid base grew 3.8% year-on-year (+1.2% quarter-on-quarter). Despite subscriber's base growth revenues, including prepaid and postpaid, decreased by 19.7% year-on-year (-10.3% quarter-on-quarter), mainly explained by voice to data substitution effect and the increase in promotional activity of competitors.
- c) Revenues from **sales of equipment** increased by 20.4% year-on-year (stable quarter-on-quarter), to US\$74,871 (COP\$228,388,979) at the end of the second 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 grossadds with low cost terminals were leveraged by prepaid plan offering *Prepagada*. Likewise, increase in the average price of equipment given the largest share of smartphones in the handsets sales mix, which increased 6.2% year-on-year (+0.3% quarter-on-quarter) closing in the second quarter of 2017 at 97.7%.
- d) The **interconnection and roaming** revenues decreased by 32.5% year-on-year (-12.2% quarter-on-quarter) from US\$36,081 (COP\$110,063,916) at the end of the second quarter 2016 to US\$24,362 (COP\$74,314,467) at the end of the second quarter 2017 mainly due to the reduction by 42.2% in mobile termination rates from January 1st of 2017 and the reduction by 30% and 60% of roaming voice and data rates, respectively, from February 23 of 2017. Excluding these effects, interconnection and roaming revenues would have increased 11.8% due to incoming traffic growth year-on-year by 16.9% (+1.9% quarter-on-quarter).
- e) **Carrier services (MVNO)**, in 2017 a regulatory change was introduced modifying MVNO-Host Operator contractual relation and reducing which resulted on tariff reductions as of June 2017. Consequently, revenues decreased by 21.6% year-on-year (-25.9% quarter-on-quarter) from US\$19,950 (COP\$60,854,790) to US\$15,641 (COP\$47,710,847) at the end of the second quarter of 2016 and second quarter of 2017 respectively. Data traffic grew 34.0% (+2.6% quarter-on-quarter) and voice traffic decrease by 18.5% year-on-year (-40.7% quarter-on-quarter).

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Note 16 – Operating Revenue (continued)

- f) Revenues from **value added services** decreased by 13.4% year-on-year (-0.4% quarter-on-quarter) from US\$18,688 (COP\$57,007,326) at the end of the second quarter of 2016 to US\$16,183 (COP\$49,365,059) at the end of the second quarter 2017 mainly due to the replacement of VASs and SMS for new applications through Data Services (Connectivity).

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 7.5% year-on-year (-0.7 quarter-on-quarter), from US\$115,096 (COP\$351,091,077 thousand) at the end of the second quarter of 2016 to US\$123,685 (COP\$377,293,321) at the end of the second quarter of 2017, mainly explained by broadband internet services revenues increase by 11.2% year-on-year (+4.7% quarter-on-quarter) due to ARPU growth of 16.5% year-on-year (+2.8 quarter-on-quarter), amounting US\$11.9 (COP\$36,281) at the end of the second 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 5.8% year-on-year (-2.6% quarter-on-quarter) from US\$97,811 (COP\$298,365,417) in the second quarter of 2016 to US\$92,142 (COP\$281,071,757) as of June 2017, mainly due to a year-on-year decrease of subscribers' base by 5.1% (-1.64% quarter-on-quarter) result of the product life cycle, fixed to mobile substitution effect.
- c) Revenues from **Satellite television services** increased by 16.6%, or US\$6,678 (COP\$20,369,864) year-on-year (+0.6% quarter-on-quarter) due to subscribers and ARPU year-on-year growth of 11.1%. Subscribers' base grew 1.7%, rising from 520 thousand at the end of the second quarter of 2016 to 529 thousand at the end of the second quarter of 2017 (+0.7% quarter-on-quarter). Increased quality of the subscribers' base benefited ARPU amounting to US\$14.8 (COP\$45,240) at the end of second 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 34.4% or US\$16,148 (COP\$49,257,892) year-on-year (-3.0% quarter-on-quarter) mainly explained by a one-off project (*Renata*), which revenue was recorded in the first semester of 2016). Excluding this impact revenue from IT and Integral Solutions would have increased by 8.0%.

Note 17 – Operating Cost and Expenses

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

	Period from January 1 to June 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	87,946	268,274,142	95,018	289,846,859	(7.4%)
Media rental and other network infrastructures	61,077	186,312,149	57,704	176,020,654	5.8%
Labor cost	58,886	179,626,453	56,152	171,286,489	4.9%
Maintenance	44,697	136,346,279	44,489	135,709,850	0.5%
Interconnection and roaming	40,325	123,007,426	44,759	136,533,141	(9.9%)
Other costs and operation expenses (1)	43,534	132,796,090	43,959	134,093,359	(1.0%)
Taxes and compensations	41,701	127,206,100	38,899	118,659,833	7.2%
Sales commissions	38,144	116,356,224	34,738	105,966,791	9.8%
Contents suppliers	25,605	78,106,164	23,987	73,171,164	6.7%
Energy	24,580	74,978,754	25,162	76,754,151	(2.3%)
Computer services	24,646	75,180,474	24,348	74,270,597	1.2%
Advertising expenses (2)	22,554	68,799,608	22,924	69,929,032	(1.6%)

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	Period from January 1 to June 30,				Variation
	2017	2016	2017	2016	Percentage
	(in thousands of US\$)	(in thousands of COP\$)	(in thousands of US\$)	(in thousands of COP\$)	%
Services (customer services)	13,096	39,947,232	13,223	40,335,952	(1.0%)
Renting and third parties' activities	12,579	38,370,590	12,170	37,124,453	3.4%
Impairment, net of recovery	7,240	22,084,899	8,127	24,791,152	(10.9%)
Other non-recurrent costs (3)	2,773	8,460,489	3,410	10,404,549	(18.7%)
Total cost and expenses	549,383	1,675,853,073	549,069	1,674,898,026	0.1%

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

(2) Includes expenses of advertising campaigns and brand use.

(3) Includes legal contingencies, contributions and losses on disposal of fixed assets,

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

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

- a) A decrease of 7.4% year-on-year (-4.4% quarter-on-quarter) in the **cost of terminals and accessories** from US\$95,018 (COP\$289,846,859) to US\$87,946 (COP\$268,274,142) at the end of the second 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 7.3%, directly associated to the increase in equipment sales.
- b) Costs of **media rentals and other network infrastructures** increased by 5.8% year-on-year (-0.1% quarter-on-quarter) from US\$57,704 (COP\$176,020,654) to US\$61,077 (COP\$186,312,149) at the end of the second quarter of 2017 mainly due to the expansion of LTE technology network nationwide in 348 new deployed sites during the last twelve months (+119 deployed sites during the last three months).
- c) The **labor costs** increased by 4.9% year-on-year (-1.7% quarter-on-quarter) from US\$56,152 (COP\$171,286,489) to US\$56,886 (COP\$179,626,453) due to wage adjustments in place during second quarter.
- d) **Interconnection and roaming** costs, including mobile termination rates, decreased by 9.9% year-on-year (-14.0% quarter-on-quarter) mainly due to the reduction in the average price per minute paid to the operators of 18.5% year-on-year (-5.2% quarter-on-quarter).
- e) The **commissions** increased by 9.8% year-on-year -from US\$34,738 (COP\$105,966,791) to US\$38,144 (COP\$116,356,224) mainly due to higher commercial activity during the second quarter of 2017 compared with 2016. During the second quarter of 2017 fixed gross adds increased by 14.0% and mobile gross adds increased by 11.2% compared to the first six months of 2016.
- f) **Contents suppliers** increased by 6.7% year-on-year (+1.1% quarter-on-quarter) from US\$23,987 (COP\$73,171,164) to US\$25,605 (COP\$78,106,164) mainly due to the TV subscriber's growth (+1.7% year-on-year).
- g) **Taxes and compensations** increased by 7.2% year-on-year (+2.9% quarter-on-quarter) or US\$2,802 (COP\$8,546,267) mainly explained by higher royalties and remunerations expenses and increase in municipalities taxes such as public lighting.
- h) **Impairment** decreased by 10.9% year-on-year or US\$887 (COP\$2,706,252) mainly explained by inventories provision which decrease by 131.3%.

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Note 18 – Depreciation and Amortization

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

	Period from January 1 to June 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	(130,421)	(397,839,102)	(120,454)	(367,436,999)
Amortization of intangibles assets	(43,941)	(134,041,133)	(39,343)	(120,012,885)
Depreciation and amortization	(174,362)	(531,880,235)	(159,797)	(487,449,884)

The expense for depreciation and amortization increase by 9.1%, or US\$14,565 (COP\$44,430,351), as of June 30 2016, mainly due to new additions of US\$33,070 (COP\$100,880,208), end of useful lives for US\$17,916 (COP\$54,650,546) and retirement of assets for US\$590 (COP\$1,799,311).

Note 19 – Financial Result, net

The net financial result increased by 9.6%, from US\$126,767 (COP\$386,694,084) at the end of the second quarter of 2016 to US\$138,991 (COP\$423,982,880) as of June 30, of 2017:

	Period from January 1 to June 30,			
	2017		2016	
	(in thousands of US\$)	(in thousands of COP\$)	(in thousands of US\$)	(in thousands of COP\$)
Debt interest expense (a)	(43,943)	(134,045,278)	(39,461)	(120,372,034)
Hedging financial expenses (b)	(18,507)	(56,455,562)	(5,402)	(16,477,842)
Others (c)	1,846	5,632,449	(945)	(2,882,738)
Exchange rate difference	(2,171)	(6,621,416)	116	351,824
	(62,775)	(191,489,807)	(45,692)	(139,380,790)
Parapat interest expense (d)	(76,216)	(232,493,073)	(81,075)	(247,313,294)
Financial result, Net	(138,991)	(423,982,880)	(126,767)	(386,694,084)

- Increase in interest expense net by US\$4,482 (COP\$13,673,244) associated with: i) new financial obligations acquired during the period generating additional financial expense of US\$10,187 (COP\$31,075,649); ii) other effects of US\$250 (COP\$ 761,799); offset by decline in senior bond interest expense of US\$5,955 (COP\$18,164,204) associated with a positive impact of the exchange rate revaluation during the period, and bond interest gross up elimination starting from January of 2017.
- Increase in hedging financial expense of US\$13,105(COP\$39,977,720) mainly explained by i) upward movement of the NDF curve, affecting forward points of new NDF operations agreed and interest valuation at the end of the period; ii) upward movement of the USD Libor rate used to accrue the USD 750 Million Libor IRS (Interest Rate Swap) increasing by 46bps in average, from 0,625% in 2016 to 1,068% in 2017.
- Decrease of US\$2,791 (COP\$8,515,187) in other financial expenses, mainly associated with: i) decline of spectrum obligation expense (indexation of the liability) by US\$1,478 (COP\$4,509,801) due to the drop-off in the interest rate used to accrue the expense, as well as the decrease in outstanding balance of the obligation; ii) increase in financial income by US\$668 (COP\$2,037,388) and iii) decrease in other financial expenses by US\$645 (COP\$1,967,998).
- Net decrease in Parapat interest expense by US\$4,858 (COP\$14,820,221) explained by i) US\$ 5,728 (COP\$17,471,803) due to lower CPI used to accrue interest expense; offset by US\$ 869 (COP\$2,651,582) associated to interest on arrears associated to April and June installments waived.

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Note 20 – Wealth tax, income and deferred tax

As of Jun 30th, 2017, tax expense sumup US\$56,947 (COP\$173,712,595) according with the following detail:

- (a) expenditure for wealth tax of \$1,114 (COP\$3,398,738)
- (b) provision for miscellaneous income tax of US\$8 (COP\$24,543)
- (c) deferred tax expense of US\$55,825 (COP\$170,289,314) explained by:
 - i. use (expense) of US\$50,642 (COP\$154,479,185) of deferred tax assets of the temporary differences related to the PARAPAT, estimated liabilities and provisions.
 - ii. use (expense) of US\$5,183 (COP\$15,810,129) related to the increase of deferred tax liability for temporary differences, mainly due to 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 the latter to 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 compensation and/or refund process to the Company of the amount generated in the balance in favor of the declaration is implemented after the presentation and approval 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 June 30th, 2017, the processes under way and reported as probable contingencies and therefore already provisioned, show no significant variations compared to the first quarter, decreasing by 3% from US\$10,694 (COP\$32,622,530) as of March 31th, 2017 to US\$10,420 (COP\$31,784,556) as of June 30th, 2017. Decline is mainly explained by the payment of fines 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 second quarter of 2017, economic claims increased by 1.2%, from US\$57,622 (COP\$175,895,354) as of March 31st, 2017 to US\$56,965 (COP\$173,766,693) as of June 30th, 2017.

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Note 23 – Other Financial and Operating Information

a. EBITDA ^(a)

	Period from January 1 to June 30,				Variation
	2017		2016		Percentage
	(in thousands of US\$)	(in thousands of COP\$)	(in thousands of US\$)	(in thousands of COP\$)	%
Net loss	(118,491)	(361,450,100)	(77,062)	(235,074,864)	
Plus:					
Depreciation and amortization	174,362	531,880,235	159,797	487,449,884	9.1%
Financial expenses, net	138,991	423,982,880	126,767	386,694,084	9.6%
Income tax ^(b)	56,947	173,712,595	25,597	78,081,641	122.5%
EBITDA	251,809	768,125,610	235,099	717,150,745	7.1%

(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 June 30,	
	2017	2016
EBITDA margin ^(a)	32.1%	30.8%

(a) Represents EBITDA divided by net revenues

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

The company exceeds the covenant of the financial leverage of Net Debt on EBITDA of 3,75x and has consumed US\$207,681 (COP\$633,514,980) of additional debt allowed, US\$300,000, under the Offering Memorandum of the senior notes of 2012, as of June 30th, 2017 remaining available debt is US\$92,319 (COP\$281,614,020).

d. Accesses

Figures in thousands	2016				2017	
	March 31,	June 30,	September 30,	December 31,	March 31,	June 30,
Final Clients Accesses	15,977	16,161	16,503	16,573	16,471	16,611
Fixed Telephony Accesses ⁽¹⁾	1,414	1,403	1,389	1,353	1,353	1,331
Internet and Data Accesses ⁽²⁾	1,008	1,012	1,025	977	990	982
Broadband ⁽³⁾	1,000	1,003	1,003	964	977	969
Pay TV Accesses	497	520	532	517	526	529
Mobile Accesses ⁽⁴⁾	13,057	13,226	13,557	13,725	13,603	13,769
Prepaid	9,625	9,730	10,019	10,137	9,974	10,097
Postpaid	3,432	3,496	3,538	3,588	3,629	3,672
Wholesale Accesses	1	1	1	1	1	0
Total Accesses	15,978	16,162	16,504	16,574	16,472	16,611

(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,

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Note 23 – Other Financial and Operating Information (continued)

e. Average Revenues per User –ARPU

<i>Figures in pesos</i>	2016				2017	
	March 31	June 30,	September 30,	December 31,	March 31,	June 30,
Fixed Telephony (1)	27,068	27,386	27,730	27,641	27,910	27,087
Broadband (2)	30,704	31,141	32,130	32,629	35,301	36,280
Pay TV	41,060	40,729	41,511	41,813	45,343	45,238
Total Mobile (3)	15,148	14,939	15,010	15,020	14,220	14,144
<i>Prepaid</i>	4,057	4,017	4,045	4,084	3,537	3,511
<i>Postpaid</i>	46,236	45,501	45,697	45,686	45,727	45,142

(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

On July 31st, 2017 as a part of the capitalization process the company extended the waiver of payment to PARAPAT's August and October installments, granted by Fiduciary *Fiduagraria* which manages the PARAPAT's assets (see Note 3. Significant Events – b) Parapat 2017 installments).

Additional, last July 25, 2017 the preliminary arbitration award of an arbitration initiated by the Ministry of Information and Communications in connection with the potential reversibility of certain assets under mobile former concessions was released. At the time of the publication of this report, the shareholders are still analyzing the implications of such arbitral award (see Note 3. Significant Events – c) Preliminary arbitral award under Colombian court system)