

**SPECIAL PURPOSE FINANCIAL STATEMENTS**

**Colombia Telecomunicaciones S.A. E.S.P.**

At June 30, 2012 and 2011

# **Colombia Telecomunicaciones S.A. E.S.P.**

## **Special Purpose Financial Statements**

At June 30, 2012 and 2011

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**CERTIFICATION OF COLOMBIA TELECOMUNICACIONES S.A. E.S.P.  
LEGAL REPRESENTATIVE AND ACCOUNTANT**

X XXXXXX, 2012

To the Shareholders of  
Colombia Telecomunicaciones S.A. E.S.P.

The undersigned Legal Representative and Accountant certify that Colombia Telecomunicaciones S.A. ESP (hereinafter “the Company”) special purpose financial statements at June 30, 2012 and 2011 have been faithfully taken from the accounting records and that before being presented to you and third parties, we have verified the following assertions contained therein:

1. All assets and liabilities included in the Company’s financial statements at June 30, 2012 and 2011 exist and all the transactions included in such financial statements have been performed during the periods of six months then ended.
2. All economic facts performed by the Company during periods of six months ended June 30, 2012 and 2011, have been recognized in the financial statements.
3. Assets represent probable future economic benefits (rights) and liabilities represent probable future economic sacrifices (obligations) obtained or in charge of the Company at June 30, 2012 and 2011.
4. All elements have been recognized at their appropriate values, in accordance with accounting principles generally accepted in Colombia.
5. Economic facts affecting the Company have been correctly classified, described and disclosed in the financial statements.

Fabián A. Hernández Ramírez  
Legal Representative

Luz Stella Espejo Molano  
Public Accountant  
Professional Card 36203–T

## Colombia Telecomunicaciones S.A. E.S.P.

### Special Purpose Balance Sheets

|   | At June 30                            |                         |
|---|---------------------------------------|-------------------------|
|   | 2012 (a)                              | 2011                    |
|   | <i>(Thousands of Colombian pesos)</i> |                         |
| <b>Assets</b>   |                                       |                         |
| <b>Current assets:</b>  |                                       |                         |
| Cash and cash equivalents <i>(Note 6)</i>                       | \$ 110,613,644                        | \$ 33,681,116           |
| Temporary investments <i>(Note 7)</i>                           | 27,422,154                            | 10,524,329              |
| Accounts receivable <i>(Note 8)</i>                             | 805,570,733                           | 598,339,028             |
| Inventories, net <i>(Note 9)</i>                                | 75,739,010                            | 14,807,518              |
| Pre-paid expenses <i>(Note 10)</i>                              | 29,121,235                            | 14,107,276              |
| <b>Total current assets</b>                                     | <b>1,048,466,776</b>                  | <b>671,459,267</b>      |
| <b>Non-current assets:</b>                                      |                                       |                         |
| Permanent investments <i>(Note 7)</i>                           | 80,773                                | 50,773                  |
| Accounts receivable, net <i>(Note 8)</i>                        | 972,074,435                           | 952,872,136             |
| Properties, plant and equipment, net <i>(Note 12)</i>           | 2,956,021,421                         | 996,758,543             |
| Intangibles, net <i>(Note 11)</i>                               | 819,628,419                           | 397,642,208             |
| Pre-paid expenses <i>(Note 10)</i>                              | 4,804,808                             | –                       |
| Deferred charges, net <i>(Note 10)</i>                          | 824,866,250                           | 572,461,058             |
| Other assets  | 7,694,083                             | 18,715,526              |
| Revaluation of assets <i>(Note 12)</i>                          | 466,898,684                           | 1,317,093               |
| <b>Total non-current assets</b>                                 | <b>6,052,068,873</b>                  | <b>2,939,817,337</b>    |
| <b>Total assets</b>   | <b>\$ 7,100,535,649</b>               | <b>\$ 3,611,276,604</b> |
| <b>Liabilities</b>  |                                       |                         |
| <b>Current liabilities:</b>                                     |                                       |                         |
| Financial obligations <i>(Note 13)</i>                          | \$ 1,650,267,840                      | \$ 597,278,902          |
| Suppliers and accounts payable <i>(Note 14)</i>                 | 1,130,887,027                         | 653,371,460             |
| Taxes, liens and charges <i>(Note 15)</i>                       | 137,913,085                           | 63,624,477              |
| Labor liabilities <i>(Note 16)</i>                              | 31,075,933                            | 13,882,509              |
| Estimated liabilities and provisions <i>(Note 17)</i>           | 433,753,946                           | 201,812,317             |
| Deferred liabilities <i>(Note 18)</i>                           | 38,282,723                            | 35,897,168              |
| Other liabilities <i>(Note 19)</i>                              | 96,643,561                            | 77,689,582              |
| <b>Total current liabilities</b>                                | <b>3,518,824,115</b>                  | <b>1,643,556,415</b>    |
| <b>Non-current liabilities:</b>                                 |                                       |                         |
| Financial obligations <i>(Note 13)</i>                          | 1,477,269,100                         | 872,112,197             |
| Taxes, liens and charges <i>(Note 15)</i>                       | 68,404,041                            | 47,886,005              |
| Estimated liabilities and long-term provisions <i>(Note 17)</i> | 21,082,809                            | –                       |
| Deferred liabilities <i>(Note 18)</i>                           | 170,783,783                           | 172,878,925             |
| Other liabilities <i>(Note 19)</i>                              | 44,105,504                            | 44,822,585              |
| <b>Total non-current liabilities</b>                            | <b>1,781,645,237</b>                  | <b>1,137,699,712</b>    |
| <b>Total liabilities</b>  | <b>5,300,469,352</b>                  | <b>2,781,256,127</b>    |

(a) Includes the operations of Telefónica Móviles Colombia S.A. (absorbed company) for the for the 6 months period of 2012.

*The accompanying notes are an integral part of the financial statements.*

**Colombia Telecomunicaciones S.A. E.S.P.**

**Special Purpose Balance Sheets**

|  | <b>At June 30,</b>                    |                         |
|--|---------------------------------------|-------------------------|
|  | <b>2012 (a)</b>                       | <b>2011</b>             |
|  | <i>(Thousands of Colombian pesos)</i> |                         |
| <b>Shareholders' equity (Note 20):</b>                     |                                       |                         |
| Subscribed and paid capital                                | \$ 1,454,870,740                      | \$ 909,928,516          |
| Additional paid-in capital                                 | 3,389,266,946                         | 435,993,212             |
| Reserves   | 90,539,755                            | 86,917,615              |
| Equity revaluation   | 607,482,707                           | -                       |
| Accumulated losses   | (4,011,598,647)                       | (300,818,613)           |
| Net loss of the period of six months                       | (197,393,888)                         | (303,317,346)           |
| Valuation surplus (Note 12)                                | 466,898,684                           | 1,317,093               |
| <b>Total Shareholders' equity (see attached statement)</b> | <b>1,800,066,297</b>                  | <b>830,020,477</b>      |
| <b>Total liabilities and shareholders' equity</b>          | <b>\$ 7,100,535,649</b>               | <b>\$ 3,611,276,604</b> |
| <b>Debit memorandum accounts (Note 21)</b>                 | <b>\$ 9,543,688,296</b>               | <b>\$ 2,490,756,507</b> |
| <b>Credit memorandum accounts (Note 21)</b>                | <b>\$ 7,490,806,813</b>               | <b>\$ 7,540,787,104</b> |

(a) Includes the operations of Telefónica Móviles Colombia S.A. (absorbed company) for the 6 months period of 2012.

*The accompanying notes are an integral part of the financial statements.*

**Colombia Telecomunicaciones S.A. E.S.P.**  
**Special Purpose Statements of Income**

|   | <b>Period from January 1 to June 30</b>                              |                         |
|---|--|-------------------------|
|   | <b>2012(a)</b>   | <b>2011</b>             |
|   | <i>(Thousands of Colombian pesos, except for net loss per share)</i> |                         |
| Net Revenues <i>(Note 22)</i>                                       | \$ 1,981,995,377   | \$ 926,467,517          |
| Cost of sales and services rendered <i>(Note 23)</i>                | (770,286,446)  | (677,491,815)           |
| <b>Gross income</b>   | <b>1,211,708,931</b>   | <b>248,975,702</b>      |
| Operating expenses:   |  |                         |
| Administrative <i>(Note 24)</i>                                     | (340,951,532)  | (115,521,171)           |
| Selling expenses <i>(Note 24)</i>                                   | (281,878,111)  | (123,438,749)           |
| Provisions <i>(Note 8 and 9)</i>                                    | (42,134,435)   | (25,340,892)            |
| <b>Operating income (loss) before depreciation and amortization</b> | <b>546,744,853</b>   | <b>(15,325,110)</b>     |
| Depreciation and amortization of:                                   |  |                         |
| Deferred charges and intangibles <i>(Note 10 and 11)</i>            | (269,784,462)  | (93,296,562)            |
| Properties, plant and equipment <i>(Note 12)</i>                    | (294,566,291)  | (113,109,001)           |
| Total depreciation and amortization                                 | (564,350,753)  | (206,405,563)           |
| <b>Operating loss</b>   | <b>(17,605,900)</b>  | <b>(221,730,673)</b>    |
| <b>Non-operating (expenses) revenues:</b>                           |  |                         |
| Financial expenses, net <i>(Note 26)</i>                            | (181,105,563)  | (65,956,205)            |
| Other income (expenses), net <i>(Note 27)</i>                       | 9,235,843  | (6,053,267)             |
| Deferred monetary correction  | 1,658,933  | -                       |
| Tax on net worth <i>(Note 25)</i>                                   | (9,577,201)  | (9,577,201)             |
| <b>Other expenses, net</b>  | <b>(179,787,988)</b>   | <b>(81,586,673)</b>     |
| Loss before income tax  | (197,393,888)  | (303,317,346)           |
| Income tax <i>(Note 25)</i>   | -  | -                       |
| Net loss of the six months period                                   | <b>\$ (197,393,888)</b>  | <b>\$ (303,317,346)</b> |
| Net loss per share  | <b>\$ (\$ 216.21)</b>  | <b>\$ (333.34)</b>      |

(a) Includes the operations of Telefónica Móviles Colombia S.A. (absorbed company) for the 6 months period of June 30, 2012.

*The accompanying notes are an integral part of the financial statements.*

**Colombia Telecomunicaciones S.A. E.S.P.**

**Statements of Changes in Shareholders' Equity**

|  | Subscribed and<br>Paid-in Capital | Additional<br>Paid-in Capital | Legal Reserve        | Tax<br>Depreciation<br>Reserve | Equity<br>Revaluation | Accumulated<br>Losses    | Net Loss of the<br>Period | Valuation<br>Surplus | Total Equity            |
|--|-----------------------------------|-------------------------------|----------------------|--------------------------------|-----------------------|--------------------------|---------------------------|----------------------|-------------------------|
| <i>(Thousands of Colombian pesos)</i>                                  |                                   |                               |                      |                                |                       |                          |                           |                      |                         |
| <b>Balance at December 31, 2010</b>                                    | \$ 909,928,516                    | \$ 435,993,212                | \$ 60,619,239        | \$ 26,298,377                  | \$ –                  | \$ 151,125,460           | \$ (451,944,073)          | \$ 1,472,886         | \$ 1,133,493,617        |
| Movement of the period   | –                                 | –                             | –                    | –                              | –                     | (451,944,073)            | 451,944,073               | (155,792)            | (155,792)               |
| Net loss of the period   | –                                 | –                             | –                    | –                              | –                     | –                        | (303,317,346)             | –                    | (303,317,346)           |
| <b>Balance at June 30, 2011</b>  | <b>909,928,516</b>                | <b>435,993,212</b>            | <b>60,619,239</b>    | <b>26,298,377</b>              | <b>–</b>              | <b>(300,818,613)</b>     | <b>(303,317,346)</b>      | <b>1,317,094</b>     | <b>830,020,479</b>      |
| Movement of the period   | –                                 | –                             | –                    | –                              | –                     | –                        | –                         | (151,086)            | (151,086)               |
| Net loss of the period   | –                                 | –                             | –                    | –                              | –                     | –                        | (340,549,544)             | –                    | (340,549,544)           |
| <b>Balance at December 31, 2011</b>                                    | <b>909,928,516</b>                | <b>435,993,212</b>            | <b>60,619,239</b>    | <b>26,298,377</b>              | <b>–</b>              | <b>(300,818,613)</b>     | <b>(643,866,890)</b>      | <b>1,166,008</b>     | <b>489,319,849</b>      |
| Additions from the merging<br>with Telefónica Móviles<br>Colombia S.A. | 1,434,189                         | 3,496,781,769                 | 3,622,139            | –                              | 620,706,852           | (3,066,913,144)          | –                         | 506,478,877          | 1,562,110,682           |
| Merging adjustment   | (1,434,189)                       | 1,434,189                     | –                    | –                              | –                     | –                        | –                         | –                    | –                       |
| Increase of capital (1)  | 544,942,224                       | (544,942,224)                 | –                    | –                              | –                     | –                        | –                         | –                    | –                       |
| Movement of the period   | –                                 | –                             | –                    | –                              | (13,224,145)          | (643,866,890)            | 643,866,890               | (40,746,201)         | (53,970,346)            |
| Net loss of the period   | –                                 | –                             | –                    | –                              | –                     | –                        | (197,393,888)             | –                    | (197,393,888)           |
| <b>Balance at June 30, 2012</b>  | <b>\$1,454,870,740</b>            | <b>\$3,389,266,946</b>        | <b>\$ 64,241,378</b> | <b>\$ 26,298,377</b>           | <b>\$607,482,707</b>  | <b>\$(4,011,598,647)</b> | <b>\$ (197,393,888)</b>   | <b>\$466,898,684</b> | <b>\$ 1,800,066,297</b> |

*The accompanying notes are an integral part of the financial statements.*

## Colombia Telecomunicaciones S.A. E.S.P.

### Statements of Changes in Financial Position

|   | Period from January 1 to June 30      |                         |
|---|---------------------------------------|-------------------------|
|   | 2012(a)                               | 2011                    |
|   | <i>(Thousands of Colombian pesos)</i> |                         |
| <b>Financial resources were provided by (used in):</b>            |                                       |                         |
| <b>Net loss of period</b>   | <b>\$ (197,393,888)</b>               | <b>\$ (303,317,346)</b> |
| Items not affecting working capital:                              |                                       |                         |
| Depreciation of properties, plant and equipment                   | 294,566,291                           | 113,109,001             |
| Amortization of deferred charges                                  | 127,408,235                           | 79,348,362              |
| Amortization of intangibles                                       | 142,376,227                           | 13,948,200              |
| Amortization of assets given in commodatum                        | 3,859,832                             | 5,267,182               |
| Loss from write-off of equipment                                  | 787,768                               | 1,575,940               |
| Loss from write-off of deferred charges                           | 624,705                               | 373,098                 |
| Amortization of Tax on net worth                                  | 9,577,201                             | 9,577,201               |
| Adjustment for effect of eliminating intercompany operations      | 63,310                                | –                       |
| Recovery of provision for equipment                               | –                                     | (874,897)               |
| Tax on net worth as a reduction of equity revaluation             | (13,224,146)                          | –                       |
| <b>Working capital provided by (used in) operations</b>           | <b>368,645,535</b>                    | <b>(80,993,259)</b>     |
| Increase of long-term obligations                                 | 73,287,006                            | (131,034,672)           |
| Increase of long-term accounts receivable                         | 86,110                                | 20,887,036              |
| Increase of long-term pre paid expenses                           | 682,442                               | –                       |
| <b>Financial resources were used in:</b>                          |                                       |                         |
| Acquisitions of properties, plant and equipment, net of transfers | (165,302,865)                         | (178,851,456)           |
| Decrease of intangibles, net of transfers                         | 16,292,803                            | 21,113,686              |
| Increase in deferred charges, net of transfers                    | (102,809,090)                         | (106,622,195)           |
| Increase of other assets – Assets given in commodatum             | –                                     | (4,031,598)             |
| Decrease of long-term accounts payable                            | (105,181)                             | –                       |
| (Decrease) increase of taxes, levies and charges                  | (22,801,347)                          | 47,886,005              |
| Increase in estimated liabilities and provisions                  | 12,466,134                            | –                       |
| (Decrease) increase of long-term deferred liabilities             | (9,822,407)                           | 20,241,588              |
| Increase (decrease) of other long-term liabilities                | 12,634,290                            | (8,280,373)             |
| <b>Increase (decrease) in working capital</b>                     | <b>\$ 183,253,430</b>                 | <b>\$ (399,685,238)</b> |

(a) Includes the operations of Telefónica Móviles Colombia S.A. (absorbed company) for the 6 months period of 2012.

*The accompanying notes are an integral part of the financial statements.*



## Colombia Telecomunicaciones S.A. E.S.P.

### Statements of Changes in Financial Position

|   | <b>Period from January 1 to June 30</b> |                         |
|---|---|-------------------------|
|   | <b>2012(a)</b>                          | <b>2011</b>             |
|   | <i>(Thousands of Colombian pesos)</i>   |                         |
| Changes in working capital components:        |   |                         |
| (Decrease) increase in current assets:        |   |                         |
| Cash and cash equivalents                     | \$ (61,942,903)                         | \$ (48,040,716)         |
| Temporary investments                         | (41,137,901)                            | (7,729,007)             |
| Short-term debtors                            | (116,441,440)                           | 1,607,354               |
| Inventories                                   | (26,306,240)                            | 11,146,104              |
| Pre paid expenses                             | 13,603,741                              | 9,753,986               |
|   | <b>(228,029,843)</b>                    | <b>(33,262,279)</b>     |
| Decrease (increase) in current liabilities:   |   |                         |
| Financial obligations                         | (110,348,894)                           | (119,117,307)           |
| Accounts payable                              | 521,999,554                             | (193,643,391)           |
| Taxes, levies and charges                     | 8,452,426                               | (147,894)               |
| Labor obligations                             | 18,765,379                              | 12,245,883              |
| Estimated liabilities and provisions          | (42,864,468)                            | (50,221,111)            |
| Deferred liabilities                          | 169,073                                 | (10,239,607)            |
| Other short-term liabilities                  | 15,110,203                              | (5,299,532)             |
|   | <b>411,283,273</b>                      | <b>(366,422,959)</b>    |
| <b>Increase (decrease) in working capital</b> | <b>\$ 183,253,430</b>                   | <b>\$ (399,685,238)</b> |

- (a) The statement of changes in financial position statement for the period of six months ended June 30, 2012 was computed based on the initial balances incorporated from Telefonica Móviles Colombia S.A. (absorbed company) at January 1, 2012.

*The accompanying notes are an integral part of the financial statements.*

## Colombia Telecomunicaciones S.A. E.S.P.

### Statements of Cash Flows

|  | <b>Period from January 1 to June 30</b> |                         |
|--|---|-------------------------|
|  | <b>2012(a)</b>                          | <b>2011</b>             |
|  | <i>(Thousands of Colombian pesos)</i>   |                         |
| <b>Cash flows from operating activities:</b>                                   |   |                         |
| <b>Net loss of the period of six months</b>                                    | <b>\$ (197,393,888)</b>                 | <b>\$ (303,317,346)</b> |
| Reconciliation between net loss and net cash provided by operating activities: |   |                         |
| Depreciation of properties, plant and equipment                                | 294,566,291                             | 113,109,001             |
| Amortization of deferred charges   | 127,408,235                             | 79,348,362              |
| Provision for doubtful accounts  | 40,195,000                              | 25,340,892              |
| Amortization of intangibles  | 142,376,227                             | 13,948,200              |
| Amortization of Assets given in commodatum                                     | 3,859,832                               | 5,267,182               |
| Loss from write-off of equipment   | 787,768                                 | 1,575,940               |
| Loss from write-off of deferred charges  | 624,705                                 | 373,098                 |
| Provision for the protection of inventories, net of recoveries                 | 335,164                                 | -                       |
| Amortization of Tax on net worth   | 9,577,201                               | 9,577,201               |
| Elimination of the net common operations from the merging                      | 63,310                                  | -                       |
| Recovery of provision for equipment  | -                                       | (874,897)               |
| Net changes in operating assets and liabilities:                               |   |                         |
| Accounts receivable  | 76,332,550                              | (6,061,210)             |
| Inventories  | 25,971,076                              | (11,146,104)            |
| Pre paid expenses  | (17,116,200)                            | (9,753,986)             |
| Accounts payable   | (522,104,735)                           | 193,643,391             |
| Taxes, levies and charges  | (31,253,773)                            | 48,033,899              |
| Labor liabilities  | (18,765,379)                            | (12,245,883)            |
| Estimated liabilities and provisions   | 55,330,602                              | 50,221,111              |
| Deferred liabilities   | (169,073)                               | 10,239,607              |
| Other liabilities  | (15,110,202)                            | 5,299,532               |
| <b>Net cash provided by operating activities</b>                               | <b>(24,485,289)</b>                     | <b>212,577,990</b>      |
| <b>Cash flows from investment activities:</b>                                  |   |                         |
| Decrease of Temporary investments  | 41,137,901                              | 7,729,007               |
| Acquisition of plant and equipment, net of transfers                           | (165,302,865)                           | (178,851,456)           |
| Additions of deferred charges, net of transfers                                | (102,809,090)                           | (106,622,195)           |
| Decrease of intangibles, trust rights  | 16,292,803                              | 21,113,686              |
| Increase of other assets – Assets given in commodatum                          | -                                       | (4,031,598)             |
| <b>Net cash used in investing activities</b>                                   | <b>\$ (210,681,251)</b>                 | <b>\$ (260,662,556)</b> |

## Colombia Telecomunicaciones S.A. E.S.P.

### Statements of Cash Flows

|   | Period from January 1 to June 30         |                      |
|---|--|----------------------|
|   | 2012(a)                                  | 2011                 |
|   | <i>(In thousands of Colombian pesos)</i> |                      |
| <b>Cash flows from financing activities:</b>  |  |                      |
| Increase (decrease) of financial obligations  | \$ 183,635,900                           | \$ (11,917,365)      |
| Amortization of Tax on net worth as a decrease of equity revaluation                    | (13,224,145)                             | –                    |
| (Decrease) increase of long-term deferred liabilities                                   | (9,822,407)                              | 20,241,588           |
| Increase (decrease) of other long-term liabilities                                      | 12,634,289                               | (8,280,373)          |
| <b>Net cash provided by financing activities</b>  | <b>173,223,637</b>                       | <b>43,850</b>        |
| Net decrease in cash and cash equivalents   | (61,942,903)                             | (48,040,716)         |
| Cash and cash equivalents at beginning of the six months period of the absorbed company | 97,522,207                               | –                    |
| Cash and cash equivalents at beginning of the six months period                         | 75,034,340                               | 81,721,832           |
| <b>Cash and cash equivalents at the end of the period</b>                               | <b>\$ 110,613,644</b>                    | <b>\$ 33,681,116</b> |

- (a) The statement of cash and cash equivalents statement for the period of six months ended June 30, 2012 was computed based on the initial balances incorporated from Telefonica Móviles Colombia S.A. (absorbed company) at January 1, 2012

*The accompanying notes are an integral part of the financial statements.*

## **Colombia Telecomunicaciones S.A. E.S.P.**

### **Notes to the Special Purpose Financial Statements**

At June 30, 2012 and 2011

*(All amounts are expressed in thousands of Colombian pesos, except for the amounts in other foreign currency, exchange rates and the share par value)*

#### **1. Economic Entity**

Colombia Telecomunicaciones S.A. E.S.P. (hereinafter “the Company”), is a public service company organized as a stock company through Public Deed No. 1331 of June 16, 2003 and has a life-term up to December 31, 2092. The Company is currently submitted to the regime set-forth by Law 1341 of 2009 and other applicable standards, catalogued as a Public Utility Service Company (ESP).

The Company’s main corporate purpose is the organization, operation, provision and exploitation of telecommunication activities and services, such as local commuted basic public telephony, local extended and national and international long-distance, mobile services, carriers, tele services, telematic, added value services, satellite services in their various modes, television services in every mode including cable television, broadcasting services, wireless technology, video, lodging services for IT applications, data center services, operation services of private and public telecommunications and total information system operations, supply and/or generation of contents and application services, information services and any other activity, product or service qualified as of telecommunications, and/or of information and communication technologies (TIC, its Spanish Acronym) such as, resources, tools, equipment, IT programs, applications, networks and media, which allow the compilation, processing, storage, information transmission of voice, data, text, video and images, including its communications and information activities, included the complementary and supplementary activities in the national territory and abroad and with foreign connection, for such purpose using goods, assets and rights or applying the use of third parties’ goods, assets and rights. Likewise, the Company may develop commercial activities defined in its bylaws.

#### ***Telefónica Internacional S.A.U. Capitalization***

On April 7, 2006, Telefónica Internacional S.A.U. became a strategic partner of Colombia Telecomunicaciones S.A. E.S.P. after an auction process for fifty percent plus one (50% +1) of the Company’s shares.

The capitalization process was formalized on April 18, 2006, the date when the shareholders’ agreement was signed, known as the Investment Master Agreement, together with its appendices, including among others, the Management Contract. By means of this Act, Telefónica Internacional S.A.U. acquired the right to capitalize fifty percent plus one (50%+1) of Colombia Telecomunicaciones S.A. E.S.P. shares. The remaining capital continues under the Nation’s and other State shareholders’ ownership.

On May 2, 2006 the operation with Telefónica Internacional S.A.U. was formalized by means of the subscription of shares, the issuance of the shares’ titles in favor of Telefónica Internacional S.A.U. and the entry in the Company’s Shareholder’s register. Likewise, an amendment was made of the bylaws which disclosed the Corporation’s new structure and eliminated, among others, management commitments included in the previous bylaws.

As a result of the capitalization and subsequent subscription of the shares by Telefónica Internacional S.A.U., there were changes in the legal regime applicable in Colombia to Telecomunicaciones S.A. E.S.P. The Company, from a legal viewpoint ceased being an official public utility entity (a decentralized national entity) to be converted into a private utility company since its majority capital continues in the hands of private parties.

## **Colombia Telecomunicaciones S.A. E.S.P.**

### **Notes to the Special Purpose Financial Statements (continued)**

#### **1. Economic Entity (continued)**

##### ***Telefónica Internacional S.A.U. Capitalization (continued)***

This change of nature had important effects from a corporate, contractual and financial standpoint, mostly generated by the fact that the standards that ruled State entities are no longer applicable to the Company.

##### ***Reinforcement Process of the Company and Merging with Telefónica Móviles Colombia S.A.***

1. On March 28, 2012, the General Shareholders' Meeting of Colombia Telecomunicaciones S.A. ESP (absorbing company) and Telefónica Móviles Colombia S.A. (absorbed company), approved the following:
  - a. The Compensation Installments of the Exploitation Contract will be assumed by the Nation through the Ministerio de Hacienda y Crédito Público (by 47.9665396%) and the Major Shareholders of Colombia Telecomunicaciones S.A. ESP. through Telefónica Móviles (by 52.0334604%). The largest Shareholder of Colombia Telecomunicaciones, Telefónica Internacional S.A.U., may incur in the capitalization or assumption of the payment of the Exploitation Contract, directly or through the Parent Company of any of the subordinates of Telefónica Internacional S.A.U. or of any of the subordinated companies of Telefónica Internacional S.A.U., its Parent Company. In this way it was determined that Telefónica Móviles Colombia S.A. subscribes an amendment to the Exploitation Contract that will involve that such company substitutes itself in the payment obligations in charge of Colombia Telecomunicaciones S.A. ESP corresponding to the Compensation Installments deriving from the Exploitation Contract.
  - b. A Payment Agreement regarding the Compensation Installments having due payments at the date of the payment assumption and the accrued late payment interests. These Installments will be paid by Colombia Telecomunicaciones S.A. ESP.
  - c. Additionally, as part of the mechanism to reinforce the agreed equity, the obligations assumed by the Nation and by Telefónica Móviles Colombia S.A. (absorbed company) could be restructured, provided that the present value thereof is maintained; for this purpose this value should be discounted at the technical interest rate of four percent (4%) annual real effective. This restructuring will consist of modifying the payment form and term of the Compensation accounts.
  - d. This equity reinforcement process is subject (statutory condition) to the completion of the merging between Colombia Telecomunicaciones S.A. ESP and Telefónica Móviles Colombia S.A., where Colombia Telecomunicaciones S.A. ESP will be the absorbing company, in accordance with the conditions determined in the parameters established in the CONPES document No. 3721.
2. Under the shareholders' regulations and considering the instruction given by the General Shareholders' Meeting No. 42 held on March 28, 2012, the Company's Board of Directors in its meeting No. 80 of March 29, 2012 adopted the terms included in the Merging Commitment and its annexes to be presented and approved by the General Shareholders' Meeting.

## **Colombia Telecomunicaciones S.A. E.S.P.**

### **Notes to the Special Purpose Financial Statements (continued)**

#### **1. Economic Entity (continued)**

##### ***Reinforcement Process of the Company and Merging with Telefónica Móviles Colombia S.A. (continued)***

3. Prior to signing the Payment Agreement between Colombia Telecomunicaciones S.A. ESP and PARAPAT and of Amendment No. 3 to the Exploitation Contract, the General Shareholders' Meeting held on March 30, 2012 approved the inclusion of certain changes in these documents as detailed below:
  - a. The payment agreement to be subscribed will be recognized at the maximum legal late payment rate on the installments pending payment accrued during 2011 and the first bimonthly period of 2012, which payment will be made in two installments, one in September 2012 and the other in March 2013. In consideration thereof, the references which anticipated that the difference in respect of the late-payment interest rate was to be submitted to the arbitration court's decision are eliminated from the Payment Agreement.
  - b. Amendment No. 3 of the Exploitation Contract will include a stipulation that the parties will directly solve in a friendly manner within a period of ninety (90) days, the matters pending between the parties regarding the destination and use of the real estate which is the subject matter of the Exploitation Contract; and otherwise, to solve the situation by using the instances provided for in the contract to solve controversies.
4. All documents structuring the strengthening of Colombia Telecomunicaciones S.A. ESP were signed on March 30, 2012: i) Payment agreement; ii) Amendment No. 3 to the Exploitation Contract, iii) Restructuring Agreement of the payment of the Compensation Installments and, iv) Amendment No. 1 to the Investment Master Agreement.
5. The payment to PARAPAT (COP\$266,000,000) was made on March 30, 2012, complying with the Third Clause of the Payment Agreement signed between Colombia Telecomunicaciones S.A. ESP and PARAPAT.
6. The Company's merging with Telefónica Móviles Colombia S.A.
  - a. The General Shareholders' Meetings of Colombia Telecomunicaciones S.A. ESP and Telefónica Móviles Colombia S.A., held on April 24 2012, upon complying with the legal and statutory formalities approved the merging and the contents of the Merging Commitment whereby Colombia Telecomunicaciones S.A. ESP absorbs Telefónica Móviles Colombia S.A.
  - b. In communications of May 2, 2012, the Superintendence of Industry and Commerce, issued a statement on the request for authorization of Colombia Telecomunicaciones S.A. ESP and Telefónica Móviles Colombia S.A., stating that this merging does not constitute an integration that leads to an undue restriction of competitors.

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 1. Economic Entity (continued)

##### ***Reinforcement Process of the Company and Merging with Telefónica Móviles Colombia S.A. (continued)***

- c. Since the companies participating in the merging are supervised by the Superintendence of Corporations and the Financial Superintendence of Colombia (Until the merger by absorption Telefónica Móviles Colombia S.A., was subjected to oversight and control by the Finance Superintendence), on May 11, 2012 the companies presented to these entities the authorization the request for authorization to formalize the Merging Commitment approved by the General Shareholders' Meetings. Based on the above, both superintendencies approved the merging by means of Resolutions No. 300–003498 of June 21, 2012 and 0931 of June 22, 2012 of the Superintendence of Corporations and the Colombian Superintendence, respectively.
- d. The merging by absorption of Telefónica Móviles Colombia S.A. by Colombia Telecomunicaciones S.A E.S.P., acting as the absorbing entity, was formalized by Public Deed No. 1571 of June 29, 2012, issued by the Notary's Office 69 of Bogotá D.C.
- e. By means of Public Deed No. 1751 of June 29, 2012, registered under No. 01648010 on July 6, 2012 with the Commercial Register of the Chamber of Commerce of Bogotá D.C. the merging was formalized.
- f. Colombia Telecomunicaciones S.A. E.S.P. accounting records at June 30, 2012 incorporated Telefónica Móviles Colombia S.A. ("TMC") financial statements. The balances of TMC at February 29, 2012 (without considering the net result for the two month period then ended) were incorporated for purposes of preparing the statement of changes in net equity, given that they correspond to the special financial statements prepared for the merging. Considering that the merging companies had no reciprocal participations, the merging adjustments and eliminations corresponded to the balances receivable and payable between both companies, and to the elimination of the results arising from their operations between them during the period.
- g. Likewise, the Company's management prepared the statement of operations for the period of six months ended June 30, 2012 absorbing the results of TMC's operations from January 1 to June 29, 2012 (merging formalization date). The main figures of the balance sheet and the statement of operations of the absorbed entity are shown below:

|                        | <b>At June 30, 2012<br/>(Unaudited)</b> |
|------------------------|---|
| Total assets           | \$ 3,674,226,485                        |
| Total liabilities      | 2,205,368,540                           |
| Equity, net            | 1,468,857,945                           |
| Net loss of the period | (39,350,121)                            |

# Colombia Telecomunicaciones S.A. E.S.P.

## Notes to the Special Purpose Financial Statements (continued)

### 1. Economic Entity (continued)

#### ***Regulating Authority***

The Ministerio de Tecnologías de la Información y las Comunicaciones<sup>1</sup> (hereinafter the Ministry) is the State authority that: controls the Information Technology and Communications sector in Colombia, adopts the policies, plans, programs and projects of the sector, establishes the overall conditions for the operation and commercialization of networks and services, grants concessions to operate services, grants permits for the use of the radio electric spectrum and installs networks and exercises inspects, control and oversight functions in the Information Technology and Communications Sector, among other functions.

On the other hand, the Comisión de Regulación de Comunicaciones (hereinafter, CRC, per initials in Spanish)<sup>2</sup> is the entity responsible to promote competence, avoiding the abuse of the dominant position and regulating the networks' market and the communication services. Among its most relevant functions are: i) promotes and regulates the free competence for the provision of telecommunication networks and services, ii) issue all the regulations of a general and particular nature for matters related with the competence regime, technical and economic aspects related with the interconnection obligation; as well as the remuneration for the access and use of networks and infrastructure, wholesale prices, billing and collection conditions; the access and use of networks regime; service quality parameters; efficiency criteria of the sector and the measurement of sector indicators to progress in the information society; and in topics related with solving controversies between suppliers of network and communication services, iii) regulate the access and use of all networks and the access to telecommunication service markets, except for the networks intended mainly for radiocast television services and sound broadcasting, towards a regulation by markets.

On the other hand, the Spectrum National Agency is the authority responsible to provide technical support for management and planning, complying with oversight and control functions of the radio electric spectrum, in coordination with the various authorities.

The National Television Authority created by Law 1507 of 2012 received, among others, the functions previously performed by the Comisión Nacional de Televisión (National Television Commission) in regard the award of concessions and licenses to render television services, as well as for the oversight and control of the regime applicable to television operators.

#### ***Regime of the Information Technology and Communications Sector***

By means of Law 1341 of July 30, 2009 the Companies' principles and concepts on the Information and Organization of Information Technologies and Communications –TIC– are defined, the National Agency of the Spectrum is created and other provisions are dictated, a general framework is established for the formulation of public policies in the Information Technology and Communications sector and principles and concepts on the company of the information and organization of such technologies, thus, producing a transformation in the telecommunications sector as a consequence of the evolution in technological and market trends, giving way to a wider sector that involves the use and appropriation of the TICs in all the Company's topics.

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<sup>1</sup> In accordance with the issuance of Law 1341 of 2009, the Ministerio de Comunicaciones was transformed into Ministerio de Tecnologías de la Información y las Comunicaciones.

<sup>2</sup> In accordance with the issuance of Law 1341 de 2009, the Comisión de Regulación de Telecomunicaciones (CRT) was transformed into Comisión de Regulación de Comunicaciones (CRC).



## **Colombia Telecomunicaciones S.A. E.S.P.**

### **Notes to the Special Purpose Financial Statements (continued)**

#### **1. Economic Entity (continued)**

##### ***Regime of the Information Technology and Communications Sector***

Article 10 of Law 1341 of 2009 establishes the new general qualification regime for the provision of telecommunication networks and services; such qualification is understood to be formally provided when the interested party is registered with the TIC, provided for by Article 15 of the same Law. Likewise, this article maintains its public service condition, for telecommunication services, in charge of the State. According to Article 11 of this Law, the use of the spectrum requires the previous express permission granted by the Ministry of Information Technologies and Communications. Likewise, according to Article 13, the granting of permits or the renewal to use a segment of the radio–electric spectrum will give rise to the payment, in favor of the Information Technologies and Communications Fund in charge of the permit holder, of a compensation which amount will be set by means of Resolution 290 of 2010 of the Ministry of Information Technologies and Communications.

Article 68 of Law 1341 establishes the transition regime for those companies formed when the Law was issued, stating that it will respect their qualifying titles (concessions, licenses, permits, authorizations) up to the term and under the conditions established in the regime. Additionally, it establishes that these operators may accept the overall qualifying regime, which will allow them to renew the permits to use the spectrum for a single time, after which the general permit renewal will be applicable. Law 142 of 1994 will not be applicable to telecommunications and to companies which provide basic commuted public telephony services, local mobile telephony in the rural sector, and long distance, in respect to these services, except in the case of these companies, the provisions established in article 4 on the essential character, Art. 17 on the companies' legal nature, Art. 24 on the tax regime and the third title, Articles 41, 42 and 43 on the labor regime, guaranteeing the association and collective negotiation rights and the employees' labor rights. Anyway, the legal nature of the companies rendering basic commuted public telephony services, local mobile telephony in the rural sector will be respected as public service companies (ESP).

##### ***Authorizations to Render Telecommunication Services by Colombia Telecomunicaciones***

As of November 8, 2011, Telefónica Móviles Colombia S.A. (absorbed company) is generally enabled to provide telecommunication networks and services, but retains, as informed by the Ministerio to the TIC's concession contracts 001, 002 and 003 subscribed on March 28, 1994 to render mobile telephone cellular service in the B network of Colombia in the Eastern, Western and Atlantic Coast areas.

On January 30, 1997, the Company agreed with the Ministry the conditions whereby it would have the right to extend concession contracts 001, 002 and 003, as well as to the payment of \$51,434 million for the Eastern and Atlantic Coast regions and \$17,584 million for 10 additional years which involves the extension to March 28, 2014.

On March 28, 2004 the formalization of the extension was signed for contracts 001, 002 and 003 for the 10 additional years from March 29, 2004 to March 28, 2014.

Mobile telephone service coverage in the national territory is determined in the minimum expansion plan provided in the Bidding Conditions of Public Bid N° 045 of 1993, to render the mentioned service, as amended with the occasion of the assignation of the 15 Mhz of additional spectrum in the 1900 Mhz, band through amendments to the concession contracts agreed upon March 28, 2005.

## **Colombia Telecomunicaciones S.A. E.S.P.**

### **Notes to the Special Purpose Financial Statements (continued)**

#### **1. Economic Entity (continued)**

##### ***Authorizations to Render Telecommunication Services by Colombia Telecomunicaciones (continued)***

On the other hand, the Company has a permit to render mobile services with 15 MHz of the spectrum in the 1900 MHz band, granted in accordance with the conditions established in Resolution 1157 of 2011. Based on this assignation, the Company has a total of 55 MHz of spectrum to render mobile services distributed as follows: 30 MHz in the 1900 band and 25 MHz in the 850 band. The permit's term is for 10 years as of October 20, 2011.

Pursuant to Decree 2980 of August 19, 2011, the Ministerio de Tecnologías de la Información y las Comunicaciones changed the radio electric spectrum limit for land in mobile inland services, from 55 to 85 MHz. According to this Decree, upon completion of the process for the permit issuance 1710 MHz to 1755 MHz and 2110 to 2155 MHz and 2500 MHz of the 2690 MHz bands, which will take place during 2012, maximum radio spectrum of use of land mobile networks and of telecommunication services will be as follows:

- 85 MHz for the highest bands (from 1710 to 2690 MHz).
- 30 MHz for the lowest bands (from 698 to 960 MHz).

Relevant issues are currently in regulation process by the Ministry, such as: the payment for the spectrum service and definition of conditions of the permit assignation process to use the spectrum bands from 1710 MHz to 1770 MHz and from 2110 MHz to 2170 MHz, as well as the band comprehended between 2500 MHz and 2690 MHz.

Additionally, concession contract No. 17 of January 2007, which corporate purpose established the operation and exploitation of the satellite television service (DBS, its Spanish acronym) or Direct Home Television (DTH, its Spanish acronym), as well as the commercialization and installation of the signals receiver equipment originated from a spatial segment and of the collection of rights. The contract's execution term is for 10 years which expire in January 2017.

#### **2. Operations**

##### ***Exploitation Contract of Goods, Assets and Rights***

Between Colombia Telecomunicaciones S.A. E.S.P and Empresa Nacional de Telecomunicaciones – Telecom in Liquidation and Telesociadas in Liquidation, a contract was signed on August 13, 2003 for the exploitation of goods, assets and rights. This contract assumes the universal tenancy of all the goods and assets related with the provision of telecommunication services and their commercial exploitation by Colombia Telecomunicaciones .S.A. E.S.P., in exchange for a compensation.

The autonomous equity created as a result of the liquidation termination of Empresa Nacional de Telecomunicaciones and its tele-associates was the Autonomous Equity of Telecom assets and liabilities (PARAPAT), of which Fiduagraria S.A. is responsible for and that administrates the exploitation contract of the assets used by Colombia Telecomunicaciones S.A. E.S.P. and receives the resources resulting from the Exploitation Contract.

## **Colombia Telecomunicaciones S.A. E.S.P.**

### **Notes to the Special Purpose Financial Statements (continued)**

#### **2. Operations (continued)**

##### ***Exploitation Contract of Goods, Assets and Rights (continued)***

Likewise, this autonomous equity transfers the resources to two trustees; the first one, to the Autonomous Equity of Remnants (PAR for its initials in Spanish), in charge of a consortium comprised by Fiduagraria S.A. and Fidupopular S.A., to handle non-involved assets – real estate, vehicles and others that have not yet been sold, accounts receivable, legal processes and files management, and the second, Autonomous Equity of Pensions (PAP), administrated by a consortium formed by Fiduprevisora S.A. and Fiducolombia S.A.

The Exploitation Contract has a major impact on the Company's financial statements; it is whereby the payment is made to the extinct Empresa Nacional de Telecomunicaciones and other Telesociadas (currently, PARAPAT autonomous equity) for the use of goods, assets and rights which are the object of the exploitation contract and that were timely identified as related with for rendering services for Colombia Telecomunicaciones S.A. ESP. The Company accounts the compensation, as other "non-operating expenses" in compliance with Resolution 517 of December 21, 2004, issued by the Contaduría General de la Nación. As of May 1, 2006 the compensation is recorded in sales costs and services rendered, in accordance with the Resolution of SSPD No. 33635 of December 28, 2005.

The following amendments have been made during the term of the Exploitation Contract of goods, assets and rights:

- a) On December 1, 2004, the Exploitation Contract of goods, assets and rights was amended to incorporate Telesantamarta in Liquidation to the Exploitation Contract, in accordance with the existence of a new party to it and the establishment of a new term to identify the goods elated with the continuity in the provision of the service by Colombia Telecomunicaciones S.A. E.S.P.
- b) On April 21, 2006 amendment number 2 to the Exploitation Contract of goods, assets and rights was signed. This amendment established the change of the form of payment of the compensation indicated above, among other items, passing from a variable compensation to a compensation corresponding to the payment of a fixed installment which will be equal to the aggregate of 17 annual installments, that will be adjusted annually, considering the variance of the IPC certified by the DANE for the calendar year prior to the accrual date, plus 4 percent points, all calculated in a combined form.
- c) On March 30, 2012, the Additional Clause No. 3 to the Exploitation Contract, whose object is the assumption by the Nation through the Ministerio de Hacienda y Crédito Público (by 47.9665396%), and of Telefónica Móviles Colombia S.A. (by 52.0334604%) of its payment obligations not yet due that result from the application derived from Clause 14 of the Exploitation Contract. The principal conditions of the Additional Clause No. 3 of the Exploitation Contract are as follows:
  - I. Upon the assumption of the payment obligations by the Nation through Ministerio de Hacienda y Crédito Público, and Telefónica Móviles Colombia S.A. (absorbed company), PARAPAT releases Colombia Telecomunicaciones S.A. ESP of its payment obligations in favor of PARAPAT corresponding to the Compensation Installments that should be paid after the signature of 3 Amendment.

## **Colombia Telecomunicaciones S.A. E.S.P.**

### **Notes to the Special Purpose Financial Statements (continued)**

#### **2. Operations (continued)**

##### ***Exploitation Contract of Goods, Assets and Rights (Continued)***

- II. The substitution of the payment obligations assumed by the Nation and Telefónica Móviles Colombia S.A. (absorbed company), do not include in any case the obligation to pay any outstanding installment before the date of signing the Amendment No. 3 is signed, or of the assumption of interests incurred or accrued as a result of the incompliance of the payment of these installments.
  - III. The rights that the Exploitation Contract grants to Colombia Telecomunicaciones S.A. ESP, as well as the obligations which are not expressly assumed in accordance with Amendment No. 3, will be held by Company, and therefore the Company's right will not be modified regarding the professional and lucrative use and enjoyment of the goods which are the object of the Exploitation Contract.
- d) Likewise, on March 30, 2012, Telefónica Móviles Colombia S.A. (absorbed entity) and PARAPAT signed the Restructuring Agreement of the Compensation Installments of the obligations assumed through the Amendment No. 3 of the Exploitation Contract, in order to change the payment amount and term of the Compensation installments. Colombia Telecomunicaciones S.A. ESP appeared for the subscription of the Restructuring Agreement, given that once the merging occurs, Colombia Telecomunicaciones S.A. ESP, as the absorbing company of Telefónica Móviles Colombia S.A., assumed the obligation of making the payment which is the object of the Restructuring Agreement.

The following details the main conditions of the Restructuring Agreement:

- I. The Restructuring Agreement stipulates the Compensation value from the second bimonthly period of 2012 to the termination of the Exploitation Contract in 2028.
- II. The Compensation Installments established in Clause 14 of the Exploitation Contract, assumed by Telefónica Móviles Colombia S.A. in accordance with Amendment No. 3, will be paid in sixteen (16) annual installments (from 2013 to 2028).
- III. The Compensation Installment of 2012 is of \$131,388,560.
- IV. The Compensation Installments accrued in 2013 will be for an amount equivalent to COP\$139,353,400 in Colombian pesos of 2012, adjusted by the variance of the Consumer Price Index (IPC for its initials in Spanish) certified by the DANE for calendar year 2012, plus four percent (4%), all of this in a combined form. The Compensation Installment accrued in 2014, will be for an equivalent of COP\$258,924,935 in Colombian pesos of 2012, adjusted by the variance of the Consumer Price Index – IPC certified by the DANE for 2012 and 2013, plus four percent (4%) for each one of the two years elapsed between 2012 and 2014, all of this calculated in a combined form.

## **Colombia Telecomunicaciones S.A. E.S.P.**

### **Notes to the Special Purpose Financial Statements (continued)**

#### **2. Operations (continued)**

##### ***Exploitation Contract of Goods, Assets and Rights (Continued)***

- V. The Compensation Installments accrued from 2015 to 2028, will be for an amount equal to that established for each year according to the Profile of Payments determined in the Restructuring Agreement, considering the Compound Growth of EBITDA from 2011 to 2014, which will correspond to the annual compound growth rate recorded from 2011 to 2014, as follows:  $(\text{EBITDA 2014} / \text{EBITDA 2011})^{1/3-1}$ , expressed in percentage terms. The Compensation Installments of the payment profiles of years 2015 to 2028 will be updated each year with the accumulated variation of the Consumer Price Index – IPC certified by DANE, from December 31, 2011 to December 31 of the year immediately prior to that of the respective accrual, plus four percent (4%) per each year elapsed since 2012.

##### ***Alliance with Telefónica Móviles Colombia S.A.***

On October 13, 2006, Colombia Telecomunicaciones S.A. E.S.P. and Telefónica Móviles Colombia S.A. formalized a strategic alliance. The purpose of the agreement is to jointly exploiting commercial businesses. The contract amount is undetermined and the Alliance term ends on December 31, 2023. The agreement of Alianza Móvil terminated as a result of the merging with Telefónica Móviles Colombia S.A.

This agreement permitted the Company (until the time of merging) the sale of mobile products in its own stores, while Telefónica Móviles Colombia S.A. could use the Company's infrastructure to expand its network, all of this in exchange for the respective compensations. Likewise, each company's sales force will jointly plan the commercial activity to work in coordination and obtain synergies.

##### ***Biannual Plans***

The Company manages resources deriving from the Fondo de Comunicaciones (Special Administrative Unit ascribed to the Ministry of Communications) for the execution of biannual plans intended for the expansion, replacement and maintenance of the current infrastructure operated by the Company in compliance with the Social Telephony Program. The Fondo de Comunicaciones sets the criteria to develop these plans in accordance with regulations set in the CONPES 3171 document. These funds are recorded in Special Funds and its balancing amount is recorded in the account Deposits Received from Third Parties. The technical and financial closing process of the II Biannual Plan began during 2011 and it is estimated to be ended during 2012.

In 2010, the Company signed a new agreement with the National Government, known as the "III Biannual Plan", which purpose is to develop the transport infrastructure required to render fixed broadband services in stratum 1, 2 and Pymes (its Spanish acronym for small and medium size companies) in rural and urban zones and the capture of high-speed Internet demand in the specified coverage zones and to do the replacement of obsolete wireless systems.

## **Colombia Telecomunicaciones S.A. E.S.P.**

### **Notes to the Special Purpose Financial Statements (continued)**

#### **2. Operations (continued)**

##### ***Biannual Plans (continued)***

The resources assigned to this Agreement are of \$109,322,000. The agreement term is of 24 months counted as of July 2010, when the engineering plan was approved. The resources of the “III Biannual Plan” are managed through a Trust and recorded as intangibles as “Trust Rights” (Note 11) and its balancing entry in account Other liabilities – deposits received (Note 19).

##### ***Compartel Project***

The Company manages the Communication’s Fund resources received from FONADE for the development of the Compartel replacement and expansion project of networks appropriate for the broadband. These funds are recorded in the account “Trust Rights” (Note 11) and its balancing entry is recorded in account other liabilities – deposits received (Note 19).

At the end of December 2011, the Company awarded resources to promote the development of the Compartel project to expand access by stratum 1 and 2 to the broadband on fixed networks for \$1,502,000, which will be disbursed through the autonomous equity.

##### ***Formation of Fundación Telefónica Colombia***

Fundación Telefónica Colombia was formed in April 2007 as a non–profit entity governed by the private regime under Colombian laws. The Fundación will be guided by the directives and philosophical statements that regulate Fundación Telefónica Internacional. The initial equity of the Fundación is \$100,000 corresponding to initial contributions made by the Founders, Fundación Telefónica España, Telefónica Móviles Colombia S.A. (absorbed company), Colombia Telecomunicaciones S.A. ESP, Atento Colombia S.A., and Terra Networks Colombia S.A. During the period of six months ended June 30, 2012 and 2011 no donations were made by the Company.

##### ***Wayra Colombia S.A.S***

Wayra Colombia S.A. was formed on June 4, 2011 as a commercial entity, which main corporate purpose is the development and promotion of business projects based on innovative technology in the local environment. Wayra’s initial equity was \$5,000 that corresponds to the contribution made by Telefónica Móviles Colombia S.A. (absorbed company) as its sole shareholder. The Company has not assumed debts, commitments or granted guarantees. Therefore, and complying with the contents of the joint circular 011 of 2005 of the Superintendence of Corporations, Wayra S.A.S. investment reduced to zero as a result of its accumulated losses.

Telefónica Móviles Colombia S.A. sold to Wayra Investigación y Desarrollo S.L. Unipersonal one hundred percent (100%) of its participation in Wayra Colombia S.A.S. on June 28, 2012, for \$1,040,476 (EUR 467,000) generating a loss of \$1,228,252.

## **Colombia Telecomunicaciones S.A. E.S.P.**

### **Notes to the Special Purpose Financial Statements (continued)**

#### **2. Operations (continued)**

##### ***Interconnection***

According to Law 1341 of 2001, suppliers have the obligation and the right of access and use of the telecommunication networks. The current interconnection regime is in Resolution 3101 of 2011 of the Communications Regulations Commissions. The Company has entered into interconnection contracts with other suppliers that would allow communication with its users with those of other networks.

Regarding the rate scheme of access charges between telecommunication operators, Resolutions 1763 of December 5, 2007, amended by resolutions 3136 and 3500 of 2011 are currently applicable.

By means of Resolution of the Communications Regulation Commission No. 3136 of 2011 Article 8 of Resolution 1763 of 2007 was amended, establishing as of April 2012, a gradual reduction of the payment made between mobile telephone operators for the use of their networks. The scheduled reduction will gradually decrease the charges of \$98.10 (ninety eight Colombian pesos with ten cents) 2011 per minute to \$42.49 (forty two Colombian pesos with forty nine cents) in 2015.

#### **3. Basis of Presentation and Accounting Policies and Practices**

##### **Special Purpose Financial Statements**

The Company's bylaws establish that the accounts cut off will be at December 31 of each year, in order to produce the special purpose financial statements.

The enclosed special purpose financial statements at June 30, 2012 and 2011 and for the six months periods then ended have been prepared in accordance with Article 29 of Regulatory Decree 2649 of 1993 to comply with the information needs of third parties for the process of issuing international bonds, in progress approved in Minute No. 46 of 31, August 2012 of the General Shareholder's Meeting.

##### **Comparative Financial Statements**

Accumulated results at June 30, 2012 were affected by the merging whereby Colombia Telecomunicaciones S.A. ESP absorbed Telefónica Móviles Colombia S.A. This does not allow making these statements comparable for the period of six months ended at June 30, 2011. However, Management has considered necessary to present Colombia Telecomunicaciones S.A. ESP's balances at June 30, 2011 and in Note 31 to the financial statements solely for information purposes the statement of operations of Telefónica Móviles Colombia S.A. for the six months period ended June 30, 2011.

Our financial information for the six-month period ended June 30, 2012 gives effect to the Merger as if it had occurred on January 1, 2012; therefore, it is not comparable to Colombia Telecomunicaciones S.A. ESP T's financial information for the six-month period ended June 30, 2011 or with old Colombia Telecomunicaciones S.A. ESP financial statements.

# **Colombia Telecomunicaciones S.A. E.S.P.**

## **Notes to the Special Purpose Financial Statements (continued)**

### **3. Basis of Presentation and Accounting Policies and Practices (continued)**

#### **Basis of Presentation**

The enclosed special purpose financial statements reflect the financial position of Colombia Telecomunicaciones S.A. ESP that were prepared in accordance to accounting principles generally accepted in Colombia established by the Superintendence of Corporations and other legal standards; such principles may differ in certain aspects to those established by other State control bodies.

Upon the issuance of Law TIC No. 1341 of July 30, 2009, (Art. 73), the Company is obliged to follow the regulations established in Regulatory Decree 2649 and 2650 of 1993 and is subject to the inspection, oversight and control of the Superintendence of Corporations as of February 1, 2010 (Until the merger by absorption Telefónica Móviles Colombia S.A., was subjected to oversight and control by the Finance Superintendence). Detailed below are the main accounting policies and principles adopted by the Company in accordance with the above:

#### **Currency**

The currency used by the Company to record transactions is the Colombian peso. For presentation purposes, the figures are presented in thousands of Colombian pesos, except for those otherwise stated.

#### **Inflation Adjustments**

Non-monetary assets, non-monetary liabilities, equity (except for the valuation surplus and results of the year) and other non-monetary items of Telefónica Móviles Colombia S.A. (absorbed company) were prospectively adjusted for inflation until 2006. These adjustments were made using adjustment percentages (PAAG), determined based on the general consumer's price index for medium revenues, prepared by the National Administrative Statistics Department (DANE, its Spanish acronym). According to Decree 1536 of May 7, 2007 the inflation adjustments as of January 1, 2007 were derogated. The accumulated value of these adjustments at the close of 2006 is a part of the historical value of their respective accounts. The inflation adjustment of equity until December 31, 2006 and classified as equity revaluation may be capitalized at any time or distributed at the Company's liquidation.

#### **Materiality Concept**

An economic fact is material when due to its nature, the surrounding circumstances and amount, known or not known it could alter significantly the economic decisions of users.

The financial statements break down specific headings in accordance with legal requirements, or those representing 5% or more of assets, liabilities, and the amounts reported of income, costs and expenses reported during the period. In addition, lower amounts are shown when they are deemed to contribute to a better interpretation of the financial information.



# **Colombia Telecomunicaciones S.A. E.S.P.**

## **Notes to the Special Purpose Financial Statements (continued)**

### **3. Basis of Presentation and Accounting Policies and Practices (continued)**

#### **Restricted Resources**

The Company is managing the resources received from the Information Technologies and Communications Fund and Fonade for the handling of the Biannual Plans and the Compartel Project intended for projects for the expansion, replacement and maintenance of the current infrastructure operated by the Company in compliance with social programs established by the National Government.

#### **Cash and Cash Equivalents**

They represent resources in cash and banks and highly liquid short – term investments, maturing within three months following their acquisition.

#### **Financial Instruments**

Financial instruments represent the value of the agreements entered into between two or more parties to purchase or sell assets in the future, such as foreign currency, securities or financial futures on exchange rates, interest rates or stock market indexes, previously defining the amount, price and date of the transaction execution, in order to provide or obtain hedge. According to current regulations, these operations are valued at market prices at year–end affecting non–Operating Revenue or expense accounts; the foregoing for purposes of maintaining results in accordance with market prices, presenting reasonable figures adjusted to the economic reality. The Company does not develop hedge operations with speculative purposes.

The Company breaks down its components of interest and exchange difference, which are recorded in the financial headings of financial income (expense) and income (expenses) for exchange difference, respectively.

#### **Short – Term and Long – Term Investments**

In accordance with current accounting provisions investments are classified and accounted for as shown below:

- a) Investments representing the amount in local or foreign currency, in securities or financial documents, which yield is predetermined in accordance with contractual conditions, are classified as fixed yield investments. Those investments that represent the invested amount, in local or foreign currency, in securities which yield is determined based on the participation in profits of the issuer entity or the autonomous equity, are classified as variable yield investments.
- b) Investments are initially recorded at cost and are monthly adjusted at their market value and charged or credited to the period's statement of operations.
- c) Investments of variable rate liquidity management correspond to investments of collective portfolios at sight of Investment Funds and investment savings accounts that are presented at their market value and are valued by means of the accrual of yields.

## **Colombia Telecomunicaciones S.A. E.S.P.**

### **Notes to the Special Purpose Financial Statements (continued)**

#### **3. Basis of Presentation and Accounting Policies and Practices (continued)**

##### **Short – Term and Long – Term Investments (continued)**

- d) Investments which the Company intends to maintain through maturity or, at least, during a three year term; when their term exceeds one year or has no maturity date, they are classified as long – term investments. These investments are recorded and valued prospectively.

Investments in subordinated companies where the Company directly or indirectly owns more than 50% of its share capital and in companies where although it does not own more than 50% of its capital, but the Parent Company does own it, are accounted for by the equity method on a prospective basis. Under this method, investments are initially recorded at cost and subsequently are adjusted, with credits or debits to the statement of income as the case may be, to recognize the participation in profits or losses in the subordinated companies after the elimination of unrealized profits between the subordinated companies and the Parent Company.

Additionally, recorded as a higher or lower value of the investments indicated above, is the proportional participation of the variances in other equity accounts of the subordinated entities, other than results of the year, with a credit to or debit from the surplus account by the equity method. Once the participation method is recorded, if the intrinsic value of the investment is lower than the carrying value, a provision is accounted for charged to the income statement. Any excess of the intrinsic value over the carrying value of the investment at period–end is recorded separately as assets valuation, with a credit charged to the equity valuation surplus.

When the registration of recurrent losses or equity decreases not originated in results, the value of the investment in the subordinated entity reaches zero, it is understood that the equity method is abandoned.

The recorded value of the investment as of the date on which the Company ceases the use of the equity method is considered as a cost.

- e) Investments represented in securities easily disposable on which the Company has the intention to sell within a term not exceeding one year to a third party other than the business group, are classified as Short – term investments. These investments are initially recorded at cost and are adjusted on a monthly basis at their realization value with a charge or credit to the statement of income, as the case may be.

##### **Translation of Foreign Currency Transactions and Balances**

Foreign currency transactions are entered according to legal regulations in force and are recorded at the applicable exchange rates in effect on the transaction date. Balances denominated in foreign currency are reflected in Colombian pesos at the representative market exchange rate of \$1,784.60 and \$1,780.16 per US\$1.00 at June 30, 2012 and 2011, respectively. In regard to accounts receivable, exchange differences are charged to the Income Statement. Regarding liabilities, exchange differences that are not imputable to assets' acquisition costs are charged to the statement of income. Items imputable to assets' acquisition costs include exchange differences while such assets are in construction or installation and until they are ready for use.

## **Colombia Telecomunicaciones S.A. E.S.P.**

### **Notes to the Special Purpose Financial Statements (continued)**

#### **3. Basis of Presentation and Accounting Policies and Practices (continued)**

##### **Subsidies and Contributions Debtors**

Decree 5052 of December 29, 2009 in its First Article, regulates the procedure resulting from applying the second item of Article 69 of Law 1341 of 2009, and regarding the deficit generated between subsidies and contributions orders the Nation – Ministry of Information Technologies and Communications – to pay during the following three terms, one hundred percent of the deficit generated between subsidies and contributions deriving from the issuance of Law 812 of 2003, in the following three terms. The quantification period of the deficit between subsidies and contributions corresponds to the billing cycles from July 2003 to December 2006 of telecommunication networks and service suppliers.

The deficit originated by subsidies is accounted for in the subsidies and contributions debtors' account, which at June 30, 2012 and 2011 amount to \$116,252 and \$124,719 million, respectively.

According to Law 1341 of 2009 in its Article 69, Decree 5052 of December 29, 2009 and Decree 2766 of 2010, the Nation should pay through the Ministry of Information Technologies and Communications one hundred per cent of the deficit between subsidies and contributions resulting from the issuance of Law 812 of 2003 in the following three terms budgeted at the time of the approval of Law 1341 of 2009.

The deficit's quantification period between subsidies and contributions resulting from Law 812, corresponds to billing cycles ranging from July 2003 to December 2006 of the telecommunication network and service suppliers.

Decrees 5052 of December 29, 2009 and 2766 of August 3, 2010, regulate the procedures resulting from applying the second item of Article 69 of Law 1341 of 2009, which regarding the deficit generated between the subsidies and contributions, orders the Nation – Ministry of Information Technologies and Communications – to pay during the following three terms, the total deficit deriving from the issuance of Law 812 of 2003. The quantification period of the deficit between the subsidies and contributions correspond to the billing cycles from July 2003 to December 2006 of the telecommunication network and service suppliers.

The Company's General Secretary's Office informed that through Resolution 2466 of 2010 a deficit of \$112,765 million was recognized for the mentioned period (2003 – 2006) and ordered a first payment of \$24,870 million, from which the Information Technologies and Communications Fund, discounted \$5,872 million, related with the pending obligations of Colombia Telecomunicaciones S.A. ESP. Subsequently, an additional payment of \$3,648 million was ordered by Resolution 2663 of 2010. During 2011, the Ministry of Information Technologies and Communications by means of Resolution 605 of April 14, and Resolution 2782 of November 1, 2011 ordered to pay \$19,579 million and \$13,386 million, respectively, on the obligation recognized in Resolution 2466 of 2010. The balance of \$51,282 would be paid during 2012 in accordance with the Law, regulations and the particular resolution. The Tic's fund has requested to the Company the remittance of information in order to check the deficit of subsidies recognized, an aspect which is in process.

It is estimated that the deficit related with the period from 2007 to 2009, amounting to about \$40,275,000 will be recovered by the allocation of resources for projects to provide broadband to stratum 1 and 2 (stratum of lower acquisition power).

## **Colombia Telecomunicaciones S.A. E.S.P.**

### **Notes to the Special Purpose Financial Statements (continued)**

#### **3. Basis of Presentation and Accounting Policies and Practices (continued)**

##### **Subsidies and Contributions Debtors (continued)**

As of February 2010, with the regulation of Articles 36 and 69 of Law 1341 of 2009, the transition period was determined for the current network and service suppliers of the Local Basic Public Commuted Telephony (TPBCL, its Spanish acronym) and extended local (TPBCLE, its Spanish acronym), whereby the compensation referred to in such article will be dedicated directly to the users of stratum 1 and 2 for a five (5) year period.

During this period, the subsidy scheme established by Law 142 of 1994 will continue to be applied, eliminating the contribution that stratum 5, 6 used to pay and the industrial and commercial sectors. Upon the issuance of Law 1450 of 2011, Article 69 was partially derogated, stating that the telecommunication network and service suppliers established by TPBCL and TPBCLE, will directly dedicate to the users of stratum 1 and 2, the compensation referred to in Article 36 of Law 1341 of 2009 for a five (5) year period, in order to subsidize the services to access Internet and the broadband and the telecommunication services subsidized in accordance with Law 142 of 1994.

It additionally establishes that the deficit that could be generated during the transition period as a result of the above item, which is not possible to be covered with the compensation value referred to in Article 36 of Law 1341 of 2009, will be annually covered by the Information Technologies and Communication Fund in accordance with the reports presented in the formats defined for such purpose.

As established in Resolution 290 of 2010 and as stated in Resolution 588 of 2010, which regulates the procedure for the payment of the transition deficit, the suppliers in deficit should present the related bills on a quarterly basis.

##### **Provision for Doubtful Accounts**

The provision for doubtful accounts which includes late-payment interest, financing and interest is reviewed and updated at each year-end based on the risk analysis, the aging of balances and recoverability evaluations made of the individual accounts by Management. Unrecoverable amounts are regularly reviewed and written-off.

The Company determines the provision for doubtful accounts receivable based on the risk of recoverability as follows:

Accounts receivable from fixed telephony:

- a. A provision of 100% is applied to accounts receivable more than 120 days past due.
- b. A provision of 100% is applied for sales to customers of the official sector on accounts receivable more than 720 days past due.
- c. A provision of 100% is applied for the financing of sales to customers for accounts receivable.
- d. On accounts receivable more than 60 and 180 days past due, respectively, on interconnection minutes with national and international operators, a provision of 100% is applied.
- e. For accounts receivable related with other debtors more than 120 days past due, a provision of 100% is applied.

## **Colombia Telecomunicaciones S.A. E.S.P.**

### **Notes to the Special Purpose Financial Statements (continued)**

#### **3. Basis of Presentation and Accounting Policies and Practices (continued)**

##### **Provision for Doubtful Accounts (continued)**

- f. The provision for long distance is computed by applying a non-recoverability factor of income from this service billed by other operators, which is estimated according to the trend of the debt recovery of local telephony services. A provision of 100% is applied for the sale of equipment – IT PDTI work post on accounts receivable more than 90 days past due, including installments pending billing.

Accounts receivable from mobile telephony:

- g. Consumption accounts receivable or traffic operations. i) Residential and SME's with a maturity greater than 105 days –100%; ii) Companies: with a maturity from 90 to 135 days – 5% and those exceeding 135 days – 100%; iii) Official sector, with a maturity exceeding 180 days – 100%.
- h. Commercialization account receivable channel: i) Commercial agents and recharges with a maturity exceeding 90 days – 100%; ii) Wholesale: with a maturity exceeding 150 days – 100%
- i. Interconnection accounts receivable. i) by means of the average historical mobile ratio of the non-recoverability percentage, ii) accounts receivable from “fixed – mobile”, “mobile – mobile” and long distance, with a reconciliation minute, the net accounts receivable is fully (100%) provisioned for the maturity of the payment, iii) A provision of 100% on accounts receivable for “fixed–mobile”, “mobile–mobile” and long–distance traffic, with a reconciliation minute and a maturity of more than 60 days.
- j. Sundry debtors: A provision of 100% is applied on the past due debt of more than 90 days and other evidence of collectability.

##### **Inventories**

The Company records at cost, as inventories, the goods acquired to render telecommunication services and the commercialization of equipment, which are valued at average cost or market the lower. Likewise, it accounts as a provision for the protection of inventories, the effect of technological obsolescence variables and turnover levels.

##### **Properties, Plant and Equipment, Net of Depreciation**

Properties, plant and equipment are recorded at cost and include: (i) financing expenses, (ii) exchange differences on foreign currency liabilities incurred for their acquisition until they are ready for use. Depreciation is computed by using the straight–line method based on the useful life of assets over the total (100%) acquisition cost. Any gain or loss on the sale or retirement is recognized in results of the transaction year. Normal disbursements for maintenance and repairs are charged to expense, while those significant ones which improve efficiency or extend the useful lives are capitalized.

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 3. Basis of Presentation and Accounting Policies and Practices (continued)

##### Properties, Plant and Equipment, Net of Depreciation (continued)

Annual depreciation rates are:

|  | Years   | %       |
|--|---------|---------|
| Buildings (1)                                | 20 – 40 | 5 – 2.5 |
| Networks, lines and cables – Fixed operation | 25      | 4       |
| Mobile network – Mobile operation            | 10      | 10      |
| Basic telephones                             | 15      | 7       |
| Exterior plant construction                  | 15      | 7       |
| Machinery and equipment                      | 10      | 10      |
| Furniture, fixtures and office equipment     | 10      | 10      |
| Communication equipment (2)                  | 10      | 10      |
| Computer equipment                           | 5       | 20      |
| Transport, traction and lifting equipment    | 5       | 20      |

(1) Includes supports for antennas, posts, cabins, camps and other exterior plant constructions.

(2) Modems and decoders are depreciated by the straight-line method at 3 and 1.5 years, respectively.

##### Assets Revaluation

Asset revaluations which are a part of equity include the excess of technical appraisals of property and equipment over the respective net costs.

According to Colombian regulations, the Company carries out the appraisal of its property and equipment at least every three years, and updates the appraisal between one year and the other, applying the respective depreciation factor to then compare the adjusted appraisal with the net book value and to account for adjustments, if necessary. These appraisals were adjusted at June 30, 2012.

##### Intangibles

Intangible at June 30 mainly include:

###### *Concessions – Qualifying Titles*

###### *a) Fixed telephony*

This corresponds to the contribution of the Nation – Ministerio de Hacienda y Crédito Público that is represented by the qualification that it grants to the Company to participate in telecommunication businesses in accordance with the provisions of Decree 1616 of 2003, including the contributions of licenses, permits, concessions and any other qualifying title for the rendering of the telecommunication services held by Empresa Nacional de Telecomunicaciones on the date Colombia Telecomunicaciones S.A. E.S.P. was created.

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 3. Basis of Presentation and Accounting Policies and Practices (continued)

##### Intangibles (continued)

To recognize the contribution of the intangible asset to the generation of income, it has been systematically amortized by the straight-line method during the determination of its useful life, which is based on considering the shorter between the estimated time of its exploitation and the duration of its legal or contractual coverage. The intangible's amortization is made by the straight-line method as of June 2003, its formation date.

As of November 8, 2011, the Company chose the general qualification regime provided for by Article 10 of Law 1341 of 2009, modifying its condition in the TIC register, with which the

Company is enabled to render all type of telecommunication services, without any restriction, except for the use of the spectrum which is subject to the permits regime.

##### *b) Mobile Telephony*

Concession rights of the mobile telephony of the Eastern, Atlantic Coast and Western regions are recorded at acquisition cost including the exchange difference resulting from the adjustment of the loan in foreign currency, secured for the acquisition up to the date the Company initiated its operative stage. Until December 31, 2006, these were amortized by using the sum-of-the-digits method of the years applied on an increasing basis and as of January 1, 2007 the straight-line method has been used. Until January 31, 1997, the initial rights were amortized within a period of nine years and nine months. At January 31, 1997, the Company was granted an extension of 10 years of its original concession, thus, as of February 1, 1997, the net balance of the initial concession rights at January 31, 1997 and the additional extension cost are amortized within a period of 17 years and 2 months.

##### *Rights*

##### *a) Use of the Radio-electric Spectrum*

- Fixed telephony:

The Company records as an intangible asset the pre paid right to use the Radio-electric Spectrum to render the telecommunication service that use the Point to Point and Multipoint point distribution to access the wireless broadband by each service area, either municipal, departmental or national, according to Decree 1972 of July 2003.

##### *b) Use of the Radio-electric Spectrum*

- Mobile Telephony:

During the second half of 2011 and with the approval of Resolution 002105 of September 15, 2011, the Ministerio de Tecnologías de la Información y las Comunicaciones, granted a permission to use and exploit 15 Mhz of radio electric spectrum to render radio communication services at the interior of the 1850 Mhz band to Telefónica Móviles Colombia S.A, and for a period of 10 years as of October 2011. The value of the concession is of \$95,543 million.

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 3. Basis of Presentation and Accounting Policies and Practices (continued)

##### Intangibles (continued)

The value of the assigned spectrum will be paid as follows: i) fifty percent (50%) in cash, six-months after the assignation with the markets representative exchange rate on the date of assignation and ii) fifty percent (50%) by complying the obligation that consists in: a) installation and operation of the infrastructure to expand the mobile's network coverage in the country as defined in Resolution No. 001157 of 2001 issued by the Ministerio de Tecnologías de la Información y las Comunicaciones; b) the internet connection and service rendered in the educational institutions as defined in the annexes if the aforementioned resolution.

##### c) *Interconnection*

This heading records the participation of rights of use over the infrastructure of Interconexión Eléctrica S.A. (ISA) over an optical fiber ring, considering that its use is provided for rendering mobile telephone service and its amortization is extended until 2014, by the straight-line method. Additionally, it records the value of rights of use acquired to use the physical infrastructure of Internexa and Colombia Telecomunicaciones.

##### d) *Licenses*

They are mainly created upon the concession for the operation and exploitation of the satellite television service for 10 years, the period when they are amortized; and licenses to operate platforms of the commercial and administrative projects information systems and of technological update of the Company, which are amortized over a period of 3 years by the straight-line method.

##### e) *Acquired Goodwill*

This is the additional amount paid on the carrying-value in the purchase of an economic entity; its amortization period, according to Joint Circular 100-000006 of 2005 of the Superintendence of Corporations and to External Circular 011 of 2005 of the Securities Superintendence (now Financial Superintendence), is of a maximum of 20 years, which is amortized until 2014.

#### Deferred Charges

Deferred charges mainly include:

##### 1. *Pre paid expenses*

Pre paid expenses are mainly represented by insurance policies, leases, training, licenses and software maintenance, which are amortized during the contract's term.



# Colombia Telecomunicaciones S.A. E.S.P.

## Notes to the Special Purpose Financial Statements (continued)

### 3. Basis of Presentation and Accounting Policies and Practices (continued)

#### Deferred Charges (continued)

##### 2. *Deferred charges*

Deferred charges are mainly represented by:

##### a) Technological projects:

Costs incurred in studies and projects related with technological renewal and IT applications, from which future benefits are expected in the estimated periods of consumption of goods, services, or the term of the related contracts, according to the feasibility studies for their recovery, as appropriate. These investments are amortized by the straight-line method over a five and ten year period, as of the date each project starts producing.

##### b) Leasehold improvements:

These are expansions and improvements of premises nationwide, adaptation of quarters, as well as improvements and remodeling of technical operation sites where the owner of the improved property is PARAPAT, these improvements, according to Accounting Principles Generally

Accepted in Colombia, are recorded as a deferred charge in the asset taking into account that they represent goods or services received from which it is expected to obtain economic benefits in other periods; costs incurred during the organization, construction, installation, assembly and startup of the investments in sites that do not belong to the Company are recorded therein. The annual amortization rates used of these assets have an estimated useful life ranging from 5 to 10 years.

##### c) *Software:*

Software is mainly comprised by licenses to operate the platforms of the commercial and administrative information systems and the Company's technological update that are amortized over a 3 year period by the straight-line method.

##### d) Financial Commissions:

Financial commissions paid in the refinancing of financial obligations and the early liquidation of Non-Delivery Forwards contracted are amortized by the straight-line method during the term of the obligation.

##### e) Charge of Deferred Monetary Correction:

This heading corresponds to the inflation adjustment of the proportional portion of equity that financed non-monetary assets, non-generators of income until December 31, 2006; its balance is amortized when the non-monetary asset is transformed into a fixed asset during a period equal to the useful life thereof.

# Colombia Telecomunicaciones S.A. E.S.P.

## Notes to the Special Purpose Financial Statements (continued)

### 3. Basis of Presentation and Accounting Policies and Practices (continued)

#### Other Assets

##### *Movable Goods in Commodate*

The Company records equipment delivered to clients in commodate such as computers and other equipment items necessary to render integral telecommunication services. These assets are amortized by the straight-line method during the contract's term estimated of 3 years.

#### Financial Obligations

These are financial obligations entered into by the Company with credit institutions or other financial entities of the country or of foreign entities; bank overdrafts are also included. Financial obligations are presented as non-current liabilities when their maturity term higher than twelve months or the Company has the unconditional right to postpone the liquidation during at least twelve months of the closing date. Financial expenses are recorded in the accumulated expenses payable account.

Financial expenses are written-off from the balance sheet when the related obligation is computed or paid. When a financial liability is replaced by another one, with terms substantially different, the change is treated as a write-off of the original liability and an addition of a new liability.

Financial costs are recorded as an expense in the statement of income when accrued and mainly include the charges for interest and other costs incurred related with the loans. When costs are directly attributable to the transaction, these values are recorded as deferred expenses and are regularly recognized as financial expenses during the loan's term.

#### Suppliers and Accounts Payable

Suppliers and accounts payable are mainly generated by the following activities:

##### a) Acquisition of goods and services:

Transactions are recorded in the period they occur; likewise, accounts payable include a provision for goods received and that are pending billing by suppliers.

##### b) *Deposits Received in favor of Third Parties:*

This heading comprises resources from Fonade and the Communications Fund for the execution of projects intended for the expansion, replacement and maintenance of the current infrastructure operated by the Company in compliance with the social telephony program and the broadband projects to reach to more population.

##### c) Payments in favor of Third Parties:

Mainly relates to the payments made for the Company's services in name of other third parties. It also includes the collection corresponding to the telephone directory agreement.

# **Colombia Telecomunicaciones S.A. E.S.P.**

## **Notes to the Special Purpose Financial Statements (continued)**

### **3. Basis of Presentation and Accounting Policies and Practices (continued)**

#### **Suppliers and Accounts Payable (continued)**

##### *d) Interconnection with other Operators and Access Charges:*

The Company records as accounts payable, the amount collected as a result of the billing of services rendered by other operators, which is demandable only insofar they correspond to payments made. As a result of the interconnection agreements, the Company bills income from the service rendered related to portfolio management and billing, to the aforementioned operators.

#### **Related Parties, Associated Companies and Shareholders**

Assets and liabilities with owners, administrators, shareholders and related entities, and the operations executed with them are disclosed as related parties and associated companies.

#### **Income Tax**

The current income tax expense payable is determined based on estimates, the effect of temporary differences involving the determination of a lower or higher tax in the current year, calculated at the current tax rates, is recorded as a deferred tax asset or liability, as applicable, provided that there is a reasonable expectation that these differences may be applied to future taxable income. The deferred tax is not computed over the tax benefits, such as tax losses and/or excesses of presumptive income in accordance with the sentence of the Council of State 6822 of May 2002.

#### **Labor Liabilities**

Labor liabilities are adjusted at the end of the period based on legal regulations in force. The balance includes the consolidation of fringe benefits and employees' bonuses. The Company during the period made regular contributions to the severance fund and integral social security; health care, professional risks and pensions, to the respective private funds or to the Social Security System which fully assumes these obligations.

#### **Recognition of Revenues, Costs and Expenses**

##### *a) Operating Revenue – Fixed operation*

They arise mainly from rendering local telephony services, long distance, added value services, interconnection, telephone books, sales and rental of equipment and television services, among others. Operating revenue is recognized when the right thereto arises, either with the rendering of the service or by estimating the services rendered and not billed. The estimation of income from services is made on the basis of billers' preliminary information, additions and retirement of clients, current rates and other verifiable variables; likewise, for value added and other services as a result of the billing cut-off used for this type of service. A review is made at the close of each month of the projected amounts versus those actually billed, and if any differences exist, the estimated bases are adjusted. In the remaining cases, income is recognized when earned and the certain, probable and quantifiable right to demand payment arises.

# Colombia Telecomunicaciones S.A. E.S.P.

## Notes to the Special Purpose Financial Statements (continued)

### 3. Basis of Presentation and Accounting Policies and Practices (continued)

#### Recognition of Revenues, Costs and Expenses (continued)

Income from the sale of equipment is recognized when the ownership of the good has been transferred

#### b) *Net revenues – Mobile Operation*

They arise mainly from the rendering of the following telecommunication services: traffic, charge from time on air, roaming and added value services (text messages, data, and contents, among others), interconnection, rental of networks and equipment, sale of maintenance of equipment. Products and services may be sold separately or jointly in commercial packages.

Income from traffic is based on the initial rate of the calls connection, plus the rates per call that vary according to the commercial plan, time consumed by the user, distance of the call and type of service. Income are recognized as the services are rendered, Non-invoiced income for the use of time on air result from the services rendered as of the date of the invoicing cycle at the end of each month, computed based on the rating of the line and are recorded affecting income. These estimates are reversed as the actual consumptions are invoiced.

In the prepayment case, payment related with the traffic paid pending consumption generates a deferred income and as the client uses the service or the cards or when the charge expire these are recognized in the statement of income.

Income from the interconnection resulting from the fixed-mobile, mobile – fixed and mobile-mobile services, as well as for other services used by the clients are recognized in the period calls are made.

Income from roaming are recognized in accordance with the traffic and are liquidated at the rates defined with different countries; likewise, estimates are recognized upon the reduction of rates; according to the negotiations with the operators for traffic compliance, once traffic is reconciled the actual rates are recognized and the estimates are adjusted.

Income from sales of telephones is recognized when the goods property is transferred.

Other income arising from service contracts, sales of accessories and other services are recognized when services are rendered or the ownership of the goods are transferred.

#### Income and Costs from Access Charges

Access charges are recorded in income and costs, which comprise income generated and paid for the use of the Company's network by other operators and the costs generated by the use of the network by other operators. Likewise, own or internal access charges are recorded in this heading, which constitute income for the local telephony unit and cost for the long-distance unit. For income and expenses 30 days are estimated per access charges. Costs and expenses are recognized by the accrual method.

## **Colombia Telecomunicaciones S.A. E.S.P.**

### **Notes to the Special Purpose Financial Statements (continued)**

#### **3. Basis of Presentation and Accounting Policies and Practices (continued)**

##### **Cost of Sales and Rendering Services**

The Company records, among others, in sales costs and services rendered the following:

- a) The compensation for the fixed installment value defined in the Exploitation Contract agreed with PARAPAT.
- b) The Compensation for the mobile service to the Fondo de Comunicaciones according to Decree 1972 of 2003 of 3% on net quarterly income for added value services and carrier services, less the costs associated with the services rendered by other operators.

Additionally until 29 June, 2012, a 5% was recorded as a contribution for the services rendered of TPBCLD, in accordance with Decree 2542 of 1997, that are liquidated based on total gross income, less the charges paid for the access and use of the public basic local commuted telephony and local extended and the payments to international operators for the call terminations.

- c) With the general authorization obtained upon the amendment of the TIC register as of November 8, 2011, in accordance with Resolution No. 000290 of March 26, 2010, the contribution that should be paid by the telecommunication network and/or service suppliers in favor of the Information and Communication Technologies Fund, will correspond to two point two percent (2.2%) on gross income accrued for the supply of telecommunication networks and/or services excluding terminals.
- d) The compensation that should be paid as of December 2010 to the National Television Commission, equivalent to 7% of the gross income accrued from the television subscription in accordance with Agreement No. 6 of 2010, is recorded in this heading.

##### **Memorandum Accounts**

The Company records in memorandum accounts the facts, circumstances, commitments or contracts that originate contingent or future rights or obligations and that therefore may affect its financial structure. They also include accounts for the control of assets, liabilities and equity, management information or control of future financial situations. On the other hand, tax memorandum accounts are used to record differences between the accounting data and data for tax effects.

##### **Net loss Per Share**

The net loss per share is determined based on the weighted average of the subscribed and outstanding shares during the year.

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 3. Basis of Presentation and Accounting Policies and Practices (continued)

##### Contingencies

On the date of issuing the financial statements, conditions could exist that result in losses for the Company, but that will only be known if in the future specific facts occur. Such situations are evaluated by Management and legal counsel as far as their nature, the probability that they materialize and the amounts involved deciding on the changes of the amounts accrued and/or disclosed. This analysis includes current legal processes against the Company and claims that have not yet initiated. Furthermore, the Company maintains the necessary insurance policies to cover specific operation risks and protection of assets.

If the evaluation of the contingency indicates that the loss may probably occur and it is possible to estimate the liability, it is then accounted for in the financial statements. If the contingency evaluation indicates that the potential loss is not probable but uncertain or that it is probable but the loss may not be estimated, then the contingency's nature is disclosed in the Note to the financial statements with an estimate of the probable range of the loss. Contingencies of estimated losses as generally eventual or remote are recognized in the memorandum accounts.

##### Use of Estimates

The preparation of the financial statements in accordance with generally accepted accounting principles requires management to record provisions and estimates that affect the amounts of assets and liabilities reported and contingent assets and liabilities at the date of the financial statements. Although they may differ from their final effect, Management considers that the estimates and assumptions used were adequate under the circumstances.

#### 4. Assets and Liabilities in Foreign Currency

The following is a detail of the assets and liabilities in foreign currency at June 30:

| Class                              | In US Dollars       |                  | In thousands of Colombian Pesos |                      |
|------------------------------------|---------------------|------------------|---------------------------------|----------------------|
|                                    | 2012                | 2011             | 2012                            | 2011                 |
| <b>Assets:</b>                     |                     |                  |                                 |                      |
| Cash and cash equivalents          | \$ 3,578            | \$ 108           | \$ 6,385,561                    | \$ 191,712           |
| Foreign debtors                    | 28,981              | 32,012           | 51,719,565                      | 56,985,864           |
| Related parties receivable         | 13,864              | 15,987           | 24,742,193                      | 28,460,077           |
| <b>Total assets</b>                | <b>46,423</b>       | <b>48,107</b>    | <b>82,847,319</b>               | <b>85,637,653</b>    |
| <b>Liabilities:</b>                |                     |                  |                                 |                      |
| Financial obligations              | 549,184             | –                | 980,073,799                     | –                    |
| Suppliers and accounts payable     | 25,406              | 4,672            | 45,339,462                      | 8,317,750            |
| Accrued liabilities and provisions | 63,383              | –                | 113,113,755                     | –                    |
| Related parties payable            | 48,000              | 24,072           | 85,661,136                      | 42,851,522           |
| <b>Total liabilities</b>           | <b>685,973</b>      | <b>28,744</b>    | <b>1,224,188,152</b>            | <b>51,169,272</b>    |
| <b>Asset (liability) position</b>  | <b>\$ (639,550)</b> | <b>\$ 19,363</b> | <b>\$ (1,141,340,833)</b>       | <b>\$ 34,468,381</b> |

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 6. Cash and Cash Equivalents

Cash and cash equivalents at June 30 were comprised of:

|                           | <u>2012</u>           | <u>2011</u>          |
|---------------------------|-----------------------|----------------------|
| Cash                      | \$ 2,937,658          | \$ 341,483           |
| Banks in local currency   | 101,172,114           | 20,622,472           |
| Banks in foreign currency | 6,385,561             | 191,712              |
| Special funds             | 118,311               | 12,525,449           |
|                           | <u>\$ 110,613,644</u> | <u>\$ 33,681,116</u> |

#### 7. Investments

The balance of short-term and long-term investments at June 30 was comprised of:

|   | <u>2012</u>          | <u>2011</u>          |
|---|----------------------|----------------------|
| Short-term:   |                      |                      |
| Liquidity investment administration – Variable rate (1) | \$ 20,400,293        | \$ 8,707,680         |
| Liquidity investment administration – Fixed Rate (2)    | 1,750,000            | –                    |
| Liquidity investment administration – Funds (3)         | 5,271,861            | 1,816,649            |
|   | <u>\$ 27,422,154</u> | <u>\$ 10,524,329</u> |
| Long-term:  |                      |                      |
| Non-controlled equity investments                       | <u>\$ 80,773</u>     | <u>\$ 50,773</u>     |

- (1) Resources in Fidubogotá that are exclusively destined to execute the II Biannual Plan at an average rate of 4.23%.  
(2) CDT with Bancolombia at a rate of 5% and expires in 2012.  
(3) Security funds of collective accounts receivable which rates range between 3.88% and 5.52%.

#### 8. Accounts Receivable, Net

Accounts receivable at June 30 was comprised by:

|   | <u>2012</u>    | <u>2011</u>    |
|---|----------------|----------------|
| Short-term:                                       |                |                |
| Fixed operation customers                         | \$ 533,159,183 | \$ 514,664,242 |
| Mobile operation customers                        | 330,545,555    | –              |
| Local fixed and mobile operators                  | 251,305,084    | 67,024,345     |
| International fixed and mobile operators          | 51,719,565     | 56,985,864     |
| Commercial agents and distribution channels       | 150,914,769    | –              |
| Portfolio of subsidies and contributions (Note 4) | 74,797,328     | 78,656,437     |
| Local related parties (Note 28)                   | 41,551,692     | 29,115,221     |
| Foreign related parties (Note 28)                 | 24,742,193     | 28,460,077     |

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 8. Accounts Receivable, Net (continued)

|   | <u>2012</u>             | <u>2011</u>             |
|---|-------------------------|-------------------------|
| Advances or tax balances in favor                             | 99,517,656              | 51,036,32               |
| Sundry debtors (4)  | 43,663,065              | 47,741,87               |
| Advances and prepayments                                      | 16,013,837              | 825,476                 |
| Provision for doubtful accounts, short-term (2)               | <u>(812,359,194)</u>    | <u>(276,170,828)</u>    |
|   | 805,570,733             | 598,339,028             |
| Long-term:  |                         |                         |
| Accounts receivable – PARAPAT (3)                             | 903,175,105             | 903,175,105             |
| Portfolio of subsidies and contributions (Note 4)             | 41,455,060              | 46,062,515              |
| Accounts receivable from IRU contracts and payment agreements | 1,180,060               | 5,787,515               |
| Deposits delivered to third parties                           | 33,513,550              | 5,096,341               |
| Provision for doubtful accounts, long-term (2)                | <u>(7,249,340)</u>      | <u>(7,249,340)</u>      |
|   | 972,074,435             | 952,872,136             |
|   | <u>\$ 1,777,645,168</u> | <u>\$ 1,551,211,164</u> |

(1) The following is a detail of other debtors at June 30:

|                                       |                      |                      |
|---------------------------------------|----------------------|----------------------|
| Telephone book agreements (a)         | \$ 13,123,751        | \$ 13,585,096        |
| Accounts receivable from time on air  | 8,609,398            | 10,610,460           |
| PARAPAT Debtors – (real-estate taxes) | 7,687,885            | 3,955,795            |
| Short-term accounts receivable        | 9,260,498            | 3,575,061            |
| Commodate contract                    | 4,981,533            | 9,157,837            |
| Accounts receivable in guarantee (b)  | –                    | 6,857,624            |
|                                       | <u>\$ 43,663,065</u> | <u>\$ 47,741,873</u> |

(a) Includes in 2012 balances receivable from Danaranjo for \$2,280 million and Publicar for \$10,778 million. (2011 – Danaranjo \$2,429 million and Publicar \$9,831 million).

(b) Balances withheld in 2011 by ATC Sitios de Colombia S.A., in accordance with contract subscribed for the granting of the rights of use and enjoyment of sites and towers. According to addendum number 3 clause 7, the parties agree that once 180 days have elapsed from the date of each withholding, the amounts will be delivered to the Company.

(2) The following is the movement of the provision for doubtful accounts during the period ended June 30:

|   | <u>2012</u>           | <u>2011</u>           |
|---|-----------------------|-----------------------|
| Balance at the beginning of the period of six months        | \$ 300,864,799        | \$ 257,705,930        |
| Balance at the beginning of the merged period of six months | 478,548,735           | –                     |
| Provision for the period of six months                      | 41,029,477            | 25,340,892            |
| Provision for late payment interests                        | 1,642,938             | 373,346               |
| Recovery of provision (Note 27)                             | <u>(2,477,415)</u>    | <u>–</u>              |
| Balance at end of the period of six months                  | <u>\$ 819,608,534</u> | <u>\$ 283,420,168</u> |



## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 8. Accounts Receivable, Net (continued)

- (3) Accounts receivable from PARAPAT at June 30, 2012 and 2011 correspond to payments made by the Company regarding the agreements with Nortel, Ericsson, Siemens, Itochu and Telenariño and the payment made for the acquisition of BATELSA. The recoverability of these balances is evaluated annually based on the sufficiency of assets anticipated for the close of the exploitation contract, which was established for 2028 (Note 30).
- (4) Mainly includes embargos and legal deposits of \$15,761,558 corresponding to legal processes with territorial entities and individuals, which are in discussion process.

#### 9. Inventories, Net

The balance of inventories at June 30 was comprised of:

|   | <u>2012</u>          | <u>2011</u>          |
|---|----------------------|----------------------|
| Telephones and accessories                          | \$ 65,603,102        | \$ –                 |
| Equipment in transit                                | 7,671,500            | 413,263              |
| Inventory for sale and materials to render services | 7,394,717            | 13,857,083           |
| Contracts in execution                              | 663,637              | 3,780,148            |
| Pre paid cards                                      | 103,708              | –                    |
| Provision for protection of inventories             | (5,697,654)          | (3,242,976)          |
|   | <u>\$ 75,739,010</u> | <u>\$ 14,807,518</u> |

The following is the movement of the provision for the protection of inventories during the period from January 1 to June 30:

|  | <u>2012</u>         | <u>2011</u>         |
|--|---------------------|---------------------|
| Balance at the beginning of the period of six months             | \$ 1,478,267        | \$ 3,242,976        |
| Balance at the beginning of period of six months of the absorbed | 3,884,223           | –                   |
| Provision of the period of six months                            | 1,104,958           | –                   |
| Recovery of the provision (Note 27)                              | (769,794)           | –                   |
| Balance at end of the period of six months                       | <u>\$ 5,697,654</u> | <u>\$ 3,242,976</u> |

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 10. Deferred Charges and Pre paid Expenses

The balance of deferred charges which includes pre paid expenses and deferred charges at June 30 is shown below:

|   | 2012                   | 2011                  |
|---|------------------------|-----------------------|
| Utilities                                     | \$ 15,602,348          | \$ 7,328,357          |
| Insurance                                     | 9,060,263              | 5,265,129             |
| Valuation for anticipated NDF liquidation (1) | 1,766,122              | –                     |
| Leases  | 2,692,502              | 1,513,790             |
| Short-term                                    | <u>29,121,235</u>      | <u>14,107,276</u>     |
| Long-term insurance                           | 4,099,867              | –                     |
| Valuation for early NDF liquidation (1)       | 704,941                | –                     |
| Long-term                                     | <u>4,804,808</u>       | <u>–</u>              |
|   | <u>33,926,043</u>      | <u>14,107,276</u>     |
| <b>Deferred charges</b>                       |                        |                       |
| Projects:                                     |                        |                       |
| Infrastructure to render services             | 580,933,472            | 598,983,454           |
| SAP/ERP implementation and invoicing systems  | 219,937,532            | 223,212,671           |
| Software:                                     |                        |                       |
| Software                                      | 786,513,236            | 121,161,091           |
| Projects in progress (2)                      | 22,951,832             | –                     |
| Leasehold improvements                        | 155,536,501            | 69,020,241            |
| Tax on net worth (Note 25)                    | 114,006,735            | 67,040,407            |
| PARAPAT payment obligation                    | 65,772,505             | –                     |
| Other deferred charges                        | 8,652,861              | 6,771,842             |
|   | <u>1,954,304,674</u>   | <u>1,086,189,706</u>  |
| Less accumulated amortization                 | <u>(1,129,438,424)</u> | <u>(513,728,648)</u>  |
|   | <u>\$ 824,866,250</u>  | <u>\$ 572,461,058</u> |

(1) Amount corresponding to the early liquidation of Non-Delivery Forwards contracted with The Royal Bank of Scotland during January 2009 in order to enter into cross-currency swaps. These values were included in the negotiation of these swaps and therefore, are amortized during the life-term.

The following is the movement of the deferred charges during the six months period from January 1 to June 30:

|   | 2012                  | 2011                  |
|---|-----------------------|-----------------------|
| Balance at beginning of the period                          | \$ 497,444,569        | \$ 555,137,524        |
| Balance at the beginning of the period of the absorbed      | 362,222,732           | –                     |
| Additions, net of transfers (1)                             | 116,033,236           | 106,622,195           |
| Losses due to write-offs, net                               | (624,705)             | (373,098)             |
| Amortization to results of Tax on net worth                 | (9,577,201)           | (9,577,201)           |
| Amortization against equity revaluation of Tax on net worth | (13,224,146)          | –                     |
| Expense for amortization the period                         | <u>(127,408,235)</u>  | <u>(79,348,362)</u>   |
| Balance at end of six months period                         | <u>\$ 824,866,250</u> | <u>\$ 572,461,058</u> |

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 10. Deferred Charges and Pre paid Expenses (continued)

- (1) Includes compensation installments collected by the PARAPAT pending amortization in the second half of 2012 of \$65,772,505. In 2011, includes mainly the accrual of the Tax on net worth of \$76,617,607.

#### 11. Intangibles, Net

The balance of intangibles at June 30 was comprised of:

|   | <u>2012</u>            | <u>2011</u>           |
|---|------------------------|-----------------------|
| Concessions of mobile telephony (1)     | \$ 2,197,905,862       | \$ –                  |
| Goodwill (Note 4)                       | 931,121,624            | –                     |
| Authorization certificates (Note 4)     | 436,461,123            | 436,461,123           |
| Rights and other licenses (2)           | 132,989,452            | 92,167,702            |
| Trust rights (3)                        | 53,282,389             | 128,259,283           |
| Licenses                                | 26,276,480             | 28,822,487            |
| Goods acquired in financial leasing (4) | 19,027,842             | 19,027,842            |
|   | <u>3,797,064,772</u>   | <u>704,738,437</u>    |
| Accumulated amortization                | <u>(2,977,436,353)</u> | <u>(307,096,229)</u>  |
|   | <u>\$ 819,628,419</u>  | <u>\$ 397,642,208</u> |

- (1) With Resolution 002105 of September 15, 2011, the Ministerio de las Tecnologías of the TIC information, granted permission to use and exploit 15 Mhz of the radio electric spectrum to render radio communication services at the interior of the 1850 Mhz band to Telefónica Móviles Colombia S.A, and for the period of 10 years as of October 2011.
- (2) Includes, among others, irrevocable rights of capacity use – IRU acquired with the related parties TIWS America S.A., TIWS España S.L., and TIWS Colombia S.A and rights of use with UNE – EPM Telecomunicaciones.
- (3) Mainly includes resources assigned to the Biannual and Compartel, pending to execute.
- (4) Equipment received with Leasing de Occidente upon the execution of the SENA project, which are completely amortized.

The following is the accumulated amortization movement of intangibles during the period between January 1 and June 30:

|  | <u>2012</u>           | <u>2011</u>           |
|--|-----------------------|-----------------------|
| Balance at beginning of the six months period              | \$ 316,158,937        | \$ 432,704,094        |
| Balance at the beginning of the absorbed six months period | 662,138,512           | –                     |
| Decrease of intangibles (5)                                | (16,292,803)          | (21,113,686)          |
| Amortization expense of the six months period              | (142,376,227)         | (13,948,200)          |
| Balance at end of six months period                        | <u>\$ 819,628,419</u> | <u>\$ 397,642,208</u> |

- (5) Corresponds mainly to the decrease in the trust.

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 12. Properties, Plant and Equipment, Net

The balance of properties, plant and equipment was comprised of the following at June 30:

|   | <u>2012</u>             | <u>2011</u>           |
|---|-------------------------|-----------------------|
| Non depreciable:                            |                         |                       |
| Constructions in progress                   | \$ 131,609,785          | \$ 116,368,536        |
| Equipment in warehouse                      | 95,396,528              | 76,908,401            |
| Land  | 18,271,438              | 2,937,267             |
|   | <u>245,277,751</u>      | <u>196,214,204</u>    |
| Depreciable:                                |                         |                       |
| Mobile network                              | 3,726,661,714           | –                     |
| Communication equipment                     | 1,275,067,985           | 911,258,416           |
| Plants and networks                         | 336,003,690             | 228,163,570           |
| Computer equipment                          | 297,382,632             | 72,938,905            |
| Telephone lines                             | 183,274,727             | 141,583,853           |
| Machinery and equipment                     | 92,760,381              | 46,261,453            |
| Constructions and buildings                 | 74,411,840              | 53,722,932            |
| Furniture and fixtures and office equipment | 60,490,067              | 15,072,678            |
| Vehicles and transportation equipment       | 3,278,957               | 1,998,648             |
|   | <u>6,049,331,993</u>    | <u>1,471,000,454</u>  |
|   | 6,294,609,744           | 1,667,214,658         |
| Less:                                       |                         |                       |
| Accumulated depreciation                    | (3,338,588,323)         | (670,456,115)         |
|   | <u>\$ 2,956,021,421</u> | <u>\$ 996,758,543</u> |

The movement of the property, plant and equipment account during the period from January 1 to June 30:

|   | <u>2012</u>             | <u>2011</u>           |
|---|-------------------------|-----------------------|
| Balance at beginning of the period                        | \$ 1,091,499,657        | \$ 931,717,131        |
| Balance at the beginning of the absorbed period           | 1,994,572,958           | –                     |
| Additions, net of transfers                               | 165,302,865             | 178,851,456           |
| Depreciation expense of the period                        | (294,566,291)           | (113,109,001)         |
| Net loss on retirement of equipment                       | (787,768)               | (1,575,940)           |
| Recovery of provision for equipment devaluation (Note 27) | –                       | 874,897               |
| Balance at end of period                                  | <u>\$ 2,956,021,421</u> | <u>\$ 996,758,543</u> |

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 12. Properties, Plant and Equipment, Net (continued)

##### Revaluations

The balance of assets revaluations at June 30 is shown below:

|   | 2012                   |                             |                        |                        |                      |
|---|------------------------|-----------------------------|------------------------|------------------------|----------------------|
|   | Cost                   | Accumulated<br>Depreciation | Net Carrying<br>Value  | Appraisal              | Revaluation          |
| Mobile network                          | \$3,297,772,686        | \$(1,246,881,483)           | \$2,050,891,203        | \$2,503,534,315        | \$452,643,112        |
| Computer and communication<br>equipment | 776,749,628            | (556,258,809)               | 220,490,819            | 222,678,983            | 2,188,164            |
| Networks, lines and cables              | 119,069,487            | (48,900,522)                | 70,168,965             | 70,265,046             | 96,081               |
| Machinery and equipment                 | 49,826,961             | (27,940,042)                | 21,886,919             | 22,026,157             | 139,238              |
| Office equipment                        | 41,905,900             | (28,449,469)                | 13,456,431             | 14,904,713             | 1,448,282            |
| Buildings and land                      | 27,478,541             | (6,244,888)                 | 21,233,653             | 31,470,005             | 10,236,352           |
| Fleet and transportation equipment      | 1,920,565              | (1,620,226)                 | 300,339                | 447,794                | 147,455              |
|   | <u>\$4,314,723,768</u> | <u>\$(1,916,295,439)</u>    | <u>\$2,398,428,329</u> | <u>\$2,865,327,013</u> | <u>\$466,898,684</u> |
|   | <b>2011</b>            |                             |                        |                        |                      |
| Computer and communication<br>equipment | \$ 459,072,543         | \$ (246,010,233)            | \$ 213,062,310         | \$ 213,763,768         | \$ 701,458           |
| Networks, lines and cables              | 119,142,263            | (37,205,252)                | 81,937,011             | 82,071,724             | 134,713              |
| Machinery and equipment                 | 13,726,945             | (7,318,825)                 | 6,408,120              | 6,428,908              | 20,788               |
| Office equipment                        | 5,374,474              | (2,666,051)                 | 2,708,423              | 2,720,981              | 12,558               |
| Buildings and land                      | 3,728,816              | (404,560)                   | 3,324,256              | 3,670,383              | 346,127              |
| Vehicles and transportation equipment   | 1,237,358              | (425,438)                   | 811,920                | 913,369                | 101,449              |
|   | <u>\$ 602,282,399</u>  | <u>\$ (294,030,359)</u>     | <u>\$ 308,252,040</u>  | <u>\$ 309,569,133</u>  | <u>\$ 1,317,093</u>  |

#### 13. Financial Obligations

Below is a detail of the short and long-term financial obligations at June 30, 2012:

| Short-Term<br>Local currency | Value                        | Rate |        | Amortization | Guarantee |
|------------------------------|------------------------------|------|--------|--------------|-----------|
|                              |                              | Base | Spread |              |           |
| Bancolombia                  | \$ 254,656,627               | DTF+ | 3.44%  | Quarterly    | (1)       |
| Banco Davivienda             | 200,000,000                  | FIJO | 8.80%  | Mature       | (1)       |
| Banco Davivienda             | 153,355,871                  | DTF+ | 4.00%  | Quarterly    | (1)       |
| Banco Santander              | 81,442,496                   | FIJO | 8.26%  | Quarterly    | (1)       |
| Banco BBVA                   | 56,433,989                   | DTF+ | 3.27%  | Quarterly    | (1)       |
| Banco Agrario                | 40,500,000                   | DTF+ | 7.00%  | Quarterly    | (1)       |
| Banco BCSC                   | 40,000,000                   | DTF+ | 2.85%  | Quarterly    | (1)       |
| Banco de Occidente           | 35,099,583                   | DTF+ | 3.00%  | Quarterly    | (1)       |
| Helm Bank                    | 30,785,212                   | DTF+ | 3.11%  | Quarterly    | (1)       |
| Banco Colpatría              | 28,500,000                   | DTF+ | 5.00%  | Quarterly    | (1)       |
| Banco HSBC                   | 22,500,000                   | DTF+ | 3.36%  | Quarterly    | (1)       |
| Banco AV Villas              | 20,666,667                   | DTF+ | 3.32%  | Quarterly    | (1)       |
| Banco de Bogota              | 20,000,000                   | DTF+ | 7.00%  | Quarterly    | (1)       |
| Banco GNB Sudameris          | 15,000,000                   | DTF+ | 6.00%  | Quarterly    | (1)       |
| <b>Subtotal</b>              | <u><b>\$ 998,940,445</b></u> |      |        |              |           |

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 13. Financial Obligations (continued)

| Short-term   | Value                  | Rate         | Guarantee     |
|--|------------------------|--------------|---------------|
| <b>In foreign currency</b>                         |                        |              |               |
| European Investment Bank Tranche A U\$74,4 million | \$ 14,755,271          | LIBOR+ 0.07% | Semester (2)  |
| European Investment Bank Tranche B U\$19,9 million | 3,732,039              | LIBOR+ 0.09% | Semester (2)  |
| European Investment Bank Tranche C U\$12,7 million | 2,384,013              | LIBOR+ 0.10% | Semester (2)  |
| European Investment Bank Tranche D U\$19,4 million | 3,642,329              | LIBOR+ 0.11% | Semester (2)  |
| European Investment Bank Tranche A U\$54,1 million | 14,858,430             | LIBOR+ 0.68% | Semester (2)  |
| European Investment Bank Tranche B U\$22,5 million | 6,191,694              | LIBOR+ 0.60% | Semester (2)  |
| European Investment Bank Tranche C U\$51,1 million | 14,025,952             | LIBOR+ 0.36% | Semester (2)  |
| Bridge – HSBC New York US\$110,5 million           | 197,245,889            | LIBOR+ 2.00% | Mature (1)    |
| Bridge – JP Morgan Chase US\$110,5 million         | 197,245,889            | LIBOR+ 2.00% | Mature (1)    |
| Bridge – Corpbanca Chile US\$110,5 million         | 197,245,889            | LIBOR+ 2.00% | Mature (1)    |
| <b>Subtotal</b>                                    | <b>\$ 651,327,395</b>  |              |               |
| <b>Total short-term</b>                            | <b>\$1,650,267,840</b> |              |               |
| <b>Long-term</b>                                   |                        |              |               |
| <b>Local currency</b>                              |                        |              |               |
| Bancolombia  | \$ 355,000,000         | DTF+ 3.55%   | Quarterly (1) |
| Banco BBVA   | 254,301,968            | DTF+ 3.55%   | Quarterly (1) |
| Banco de Bogota                                    | 214,001,720            | DTF+ 4.00%   | Quarterly (1) |
| Bancolombia (a)                                    | 200,000,000            | DTF+ 4.00%   | Quarterly (1) |
| Helm Bank  | 59,000,000             | DTF+ 3.65%   | Quarterly (1) |
| Banco de Occidente                                 | 35,099,583             | DTF+ 3.00%   | Quarterly (1) |
| Banco AV Villas                                    | 16,000,000             | DTF+ 3.00%   | Quarterly (1) |
| Banco Davivienda                                   | 15,119,425             | DTF+ 4.00%   | Quarterly (1) |
| <b>Subtotal</b>                                    | <b>\$1,148,522,696</b> |              |               |
| <b>In foreign currency</b>                         |                        |              |               |
| European Investment Bank U\$74,4 million           | \$ 88,531,626          | LIBOR+ 0.07% | Semester (2)  |
| European Investment Bank U\$19,9 million           | 24,258,251             | LIBOR+ 0.09% | Semester (2)  |
| European Investment Bank U\$12,7 million           | 15,496,084             | LIBOR+ 0.10% | Semester (2)  |
| European Investment Bank U\$19,4 million           | 25,496,303             | LIBOR+ 0.11% | Semester (2)  |
| European Investment Bank U\$54,1 million           | 66,862,933             | LIBOR+ 0.68% | Semester (2)  |
| European Investment Bank U\$22,6 million           | 30,958,469             | LIBOR+ 0.60% | Semester (2)  |
| European Investment Bank U\$51,0 million           | 77,142,738             | LIBOR+ 0.36% | Semester (2)  |
| <b>Subtotal</b>                                    | <b>\$ 328,746,404</b>  |              |               |
| <b>Total long-term</b>                             | <b>\$1,477,269,100</b> |              |               |
| <b>Total financial obligations</b>                 | <b>\$3,127,536,940</b> |              |               |

(a) Bancolombia Loan Agreement. On March 28, 2012, old CT, as borrower, and TEMCO, as guarantor, entered into a credit agreement with Bancolombia S.A. in the aggregate principal amount of COP\$200,000 million. This loan was disbursed on March 28, 2012 and bears interest at the DTF rate at plus a spread based on old CT's financial debt to EBITDA ratio at each applicable interest period. Interest under this loan is payable quarterly through maturity in March 2017. The principal amount of this loan is payable in quarterly installments starting in June 2014 through maturity. This facility contains financial covenants that required old CT to maintain a ratio of financial debt to adjusted EBITDA no greater than 5.0:1.0[A1]. We were in compliance with these financial covenants as of June 30, 2012. The proceeds of this agreement were used to pay a portion of the past-due obligations under the PARAPAT Agreement. As of June 30, 2012, the outstanding principal amount under this loan agreement was COP\$200,000 million.

- (1) Guaranteed by means of a promissory note of the Company
- (2) Promissory notes guaranteed by BBVA and Banco Santander:

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 13. Financial Obligations (continued)

##### Description of guarantees with European Investment Bank – BEI

Based on the signature of the financing contract between the Telefónica Móviles Colombia S.A. and European Investment Bank (EIB) in August 2006 and March 2009, a guarantee was granted by Banco Santander, for the first contract and by the BBVA bank, for the second contract, in favor of BEI. These financing contracts are intended for the expansion of the infrastructure. In virtue of the absorption of Telefónica Móviles Colombia S.A. (TMC) by Colombia Telecomunicaciones S.A. ESP every guarantee contract was assumed by the latter.

##### Bridge Loan

On May 10, 2012, TMC entered into the Bridge Loan, under which the lenders disbursed a loan to the Company on May 15, 2012 in an aggregate principal amount of US\$332 million. This loan bears interest at a rate of three-month LIBOR *plus* an incremental margin between 2.00% and 3.25% *per annum*. Interest under the loan is payable monthly in arrears through maturity in May 2013, which maturity may be extended at our request for an additional 180 days, at the lenders' discretion, at the higher interest rate of LIBOR plus 3.28%. The Bridge Loan facility contains financial covenants that requires the Company (as successor to TMC by merger) to maintain a ratio of financial debt to adjusted EBITDA no greater than 3.8:1.0 and other covenants which restrict, among others, our ability to create liens; merge, consolidate or undertake any corporate reorganization; sale our assets; entered into affiliate transactions and pay dividends. Following the Merger, the Company assumed TMC's obligations under the Bridge Loan. The proceeds from the Bridge Loan were used to repay the outstanding balance under TMC's U.S.\$600 million credit facility with IDB in an aggregate amount of U.S.\$273 million and the remaining for US\$58 million were used to pay mark to market of derivatives due at that date. We intend to repay the Bridge Loan in its entirety with the proceeds of the notes offered hereby TMC.

The following is a detail of short and long-term financial obligations at June 30, 2011:

| Short term<br>In local currency | Value                 | Rate |        |              |
|---------------------------------|-----------------------|------|--------|--------------|
|                                 |                       | Base | Spread | Amortization |
| Bancolombia                     | \$ 151,323,293        | DTF+ | 2.87%  | Quarterly    |
| Banco Davivienda                | 112,756,264           | DTF+ | 3.56%  | Quarterly    |
| Banco Santander                 | 46,442,496            | DTF+ | 2.42%  | Quarterly    |
| Banco BBVA                      | 30,000,000            | DTF+ | 2.00%  | Quarterly    |
| Banco Agrario                   | 90,000,000            | DTF+ | 7.00%  | Quarterly    |
| Banco de Occidente              | 5,849,930             | DTF+ | 3.00%  | Quarterly    |
| Helm Bank                       | 35,785,212            | DTF+ | 2.71%  | Quarterly    |
| Banco Colpatria                 | 1,500,000             | DTF+ | 4.00%  | Quarterly    |
| Banco HSBC                      | 26,000,000            | DTF+ | 1.78%  | Quarterly    |
| Banco AV Villas                 | 23,333,333            | DTF+ | 2.67%  | Quarterly    |
| Banco de Bogotá                 | 39,795,754            | DTF+ | 3.00%  | Quarterly    |
| Banco GNB Sudameris             | 35,000,000            | DTF+ | 6.00%  | Quarterly    |
| <b>Total short-term</b>         | <b>\$ 597,278,902</b> |      |        |              |

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 13. Financial Obligations (continued)

| Short term<br>In local currency    | Value                  | Rate |        | Amortization |
|------------------------------------|------------------------|------|--------|--------------|
|                                    |                        | Base | Spread |              |
| <b>Long-term</b>                   |                        |      |        |              |
| <b>In Local Currency</b>           |                        |      |        |              |
| Bancolombia                        | \$ 258,333,333         | DTF+ | 3.37%  | Quarterly    |
| Banco BBVA                         | 195,735,957            | DTF+ | 3.00%  | Quarterly    |
| Banco de Bogotá                    | 177,302,570            | DTF+ | 3.00%  | Quarterly    |
| Helm Bank                          | 54,000,000             | DTF+ | 3.00%  | Quarterly    |
| Banco de Occidente                 | 64,349,235             | DTF+ | 3.00%  | Quarterly    |
| Banco AV Villas                    | 26,666,667             | DTF+ | 3.00%  | Quarterly    |
| Banco Davivienda                   | 55,724,435             | DTF+ | 3.50%  | Quarterly    |
| Banco BCSC                         | 40,000,000             | DTF+ | 2.85%  | Quarterly    |
| <b>Total long-term</b>             | <b>\$ 872,112,197</b>  |      |        |              |
| <b>Total financial obligations</b> | <b>\$1,469,898,479</b> |      |        |              |

#### Maturity of the debt

The maturity of the debt in local and foreign currency at June 30 is as follows:

| Maturity        | 2012                |                   | 2011               |
|-----------------|---------------------|-------------------|--------------------|
|                 | Local Currency      | Foreign Currency  | Local Currency     |
| 2011            | \$ -                | \$ -              | \$ 197,050         |
| 2012            | 681,992             | 29,795            | 588,749            |
| 2013            | 444,390             | 651,327           | 323,465            |
| 2014            | 366,812             | 59,590            | 281,850            |
| 2015            | 262,518             | 59,590            | 66,784             |
| 2016 thereafter | 391,752             | 179,772           | 12,000             |
|                 | <b>\$ 2,147,464</b> | <b>\$ 980,074</b> | <b>\$1,469,898</b> |

#### 14. Suppliers and Accounts Payable

The following is a detail of the suppliers and accounts payable at June 30:

|                                       | 2012                   | 2011                  |
|---------------------------------------|------------------------|-----------------------|
| Official creditors (1)                | \$ 453,362,122         | \$ 284,454,085        |
| Costs and expenses payable (2)        | 369,246,388            | 163,599,026           |
| Local related parties (Note 28)       | 27,080,486             | 33,029,566            |
| Foreign related parties (Note 28)     | 85,661,136             | 42,851,522            |
| Local suppliers                       | 122,170,178            | 100,578,256           |
| Foreign suppliers                     | 45,339,462             | 8,317,750             |
| Withholding tax                       | 11,948,050             | 12,286,424            |
| Payroll withholding and contributions | 8,020,450              | 4,348,957             |
| Withheld sales VAT                    | 6,555,472              | 3,560,149             |
| Municipal tax                         | 1,503,283              | 345,725               |
|                                       | <b>\$1,130,887,027</b> | <b>\$ 653,371,460</b> |



## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 14. Suppliers and Accounts Payable (continued)

- (1) Includes in 2012, \$378,193,407 corresponding to unpaid installments of 2011 and 2012 of the exploitation contract with Papat. Includes in 2011, 3 unpaid installments for \$133,608,857.
- (2) Includes a provision for interests over unpaid installments from Parapat during 2011 at the maximum late payment interest rate according to the Law for \$103,561,774.

#### 15. Taxes, levies and charges

Below is a detail of taxes, levies and charges at June 30:

|  | <u>2012</u>           | <u>2011</u>           |
|--|-----------------------|-----------------------|
| Taxes, contributions and rates payable | \$ 1,942,018          | \$ 9,322,682          |
| Value added tax –VAT                   | 90,368,373            | 33,357,706            |
| Tax on net worth (Note 25)             | 45,602,694            | 19,154,402            |
| Income tax (Note 25)                   | –                     | 1,789,687             |
|  | <u>137,913,085</u>    | <u>63,624,477</u>     |
| Long-term Tax on net worth (Note 25)   | 68,404,041            | 47,886,005            |
|  | <u>\$ 206,317,126</u> | <u>\$ 111,510,482</u> |

#### 16. Labor Liabilities

Below is a detail of labor liabilities at June 30:

|                    |                      |                      |
|--------------------|----------------------|----------------------|
| Bonus to employees | \$ 19,523,788        | \$ 10,666,928        |
| Vacations          | 11,527,366           | 3,142,639            |
| Service bonus      | 24,779               | 72,942               |
|                    | <u>\$ 31,075,933</u> | <u>\$ 13,882,509</u> |

#### 17. Estimated Liabilities and Provisions

The balance of estimated liabilities and provisions at June 30 was as follows:

|   | <u>2012</u>           | <u>2011</u>           |
|---|-----------------------|-----------------------|
| For costs and expenses (1)                        | \$ 212,184,758        | \$ 166,951,796        |
| Valuation of short-term financial instruments (2) | 92,030,946            | –                     |
| Tax obligations                                   | 61,338,404            | –                     |
| Miscellaneous provisions                          | 38,330,389            | 15,756,255            |
| Provisions for fringe benefits                    | 23,597,121            | 17,390,307            |
| For contingencies (Note 29)                       | 16,552,324            | 6,222,080             |
|   | <u>444,033,942</u>    | <u>206,320,438</u>    |
| Long-term valuation of financial instruments (2)  | 21,082,809            | –                     |
|   | <u>\$ 454,836,755</u> | <u>\$ 201,812,317</u> |

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 17. Estimated Liabilities and Provisions (continued)

(1) Costs and expenses account includes:

|  | <u>2012</u>           | <u>2011</u>           |
|--|-----------------------|-----------------------|
| Other costs and expenses                     | \$ 59,866,804         | \$ 49,648,310         |
| Interconnection                              | 50,741,733            | 93,015,882            |
| Licenses and maintenance                     | 35,968,147            | 13,623,960            |
| Commissions and commercial severance payment | 35,060,437            | 4,824,904             |
| Cost of other network                        | 21,100,910            | -                     |
| Utilities                                    | 7,624,167             | 5,838,740             |
| Financial commissions                        | 1,822,560             | -                     |
|  | <u>\$ 212,184,758</u> | <u>\$ 166,951,796</u> |

(2) Corresponds to the liability valuation of derivative financial instruments both for interest rate and exchange rate.

#### Hedge Financial Instruments

At the closing of June 30, 2012, the valuation of the financial hedges corresponded to Non Delivery Forward (NDF) and Cross Currency Swap (CCS) operations to cover financial liabilities and commercial accounts in USD and EUR; such valuation results in two components: i) the interest rate component which is defined as the valuation generated by the difference between the exchange rate of the hedge and the exchange rate of the month close multiplied by the nominal value of the hedge. These two values are recorded separately in the statement of income as a financial expense and an income or expense for exchange difference, respectively.

Once the valuation is made at market price of the assets and liabilities of the hedge operations, the accounting records of each of the components at the closing of June 30, 2012 are the following:

|                                | <u>Amount</u>                 |
|--------------------------------|-------------------------------|
| By exchange rate               | \$(104,269,240)               |
| By interest rate               | (8,844,515)                   |
| Total position                 | <u>(113,113,755)</u>          |
| Other effects by interest rate | (7,469,083)                   |
| Net position                   | <u><u>\$(120,582,838)</u></u> |

At the close of the period the par value hedged by the Non Delivery Forward (NDF) amounted to USD347 million and EUR 18 million of which USD 287 million corresponded to the underlying financial (debt of the "Bridge" credit and BEI) and the difference of the commercial underlying difference (accounts receivable and payable in USD and EUR).

The nominal value hedged in CCS amounted to USD 262 million corresponding to the underlying financial (BEI debt and Bridge credit).

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 17. Estimated Liabilities and Provisions (continued)

In summary, at June 30, 2012, the Company had recorded in its balance sheet the valuation at market prices of a portfolio of financial hedges both in NDF as in CCS of USD 609 million and EUR18 million of par value. Contracted hedges during the year were in dollars and euros and were entered into with local and international financial entities, with which there are local master contracts signed and ISDA's contracts (International Swaps and Derivatives Association).

#### 18. Deferred Liabilities

The balance of deferred liabilities at June 30 was:

|   | <u>2012</u>           | <u>2011</u>           |
|---|-----------------------|-----------------------|
| Short-term:   |                       |                       |
| Income received in advance:                               |                       |                       |
| Rights of use and enjoyment of sites and towers (Note 30) | \$ 14,057,645         | \$ 12,903,843         |
| Irrevocable rights of use – IRU                           | 2,286,757             | 14,863,775            |
| Telephone books – Publicar                                | 3,543,327             | 4,922,140             |
| Interconnection operators                                 | 6,771,813             | 2,747,552             |
| Other income received in advance                          | 2,823,810             | 459,858               |
| Income – Pre paid platform                                | 8,799,371             | –                     |
|   | <u>\$ 38,282,723</u>  | <u>\$ 35,897,168</u>  |
| Long-term:  |                       |                       |
| Income received in advance:                               |                       |                       |
| Rights of use and enjoyment of sites and towers (Note 30) | \$ 147,170,965        | \$ 145,023,265        |
| Irrevocable rights of use – IRU                           | 18,005,990            | 27,855,660            |
| Deferred credit monetary correction                       | 5,606,828             | –                     |
|   | <u>\$ 170,783,783</u> | <u>\$ 172,878,925</u> |

#### 19. Other Liabilities

The balance of other liabilities at June 30 was comprised of:

|  |                      |                      |
|--|----------------------|----------------------|
| Deposits received from third parties (1) | \$ 62,953,001        | \$ 66,731,009        |
| Income received for third parties (2)    | 75,804,813           | 55,781,158           |
| Deposits received in guarantee           | 1,991,251            |                      |
|  | <u>140,749,065</u>   | <u>122,512,167</u>   |
| Less – Other long-term liabilities (3)   | 44,105,504           | 44,822,585           |
|  | <u>\$ 96,643,561</u> | <u>\$ 77,689,582</u> |

(1) Deposits received from third parties, include:

|   |               |               |
|---|---------------|---------------|
| Fondo Comunicaciones –II and III Biannual Plans | \$ 61,246,603 | \$ 65,953,192 |
| Fonade – Compartel                              | 1,036,270     | 194,225       |
| Other deposits received from third parties      | 670,128       | 583,592       |

**Colombia Telecomunicaciones S.A. E.S.P.**

**Notes to the Special Purpose Financial Statements (continued)**

|  |           |           |
|--|-----------|-----------|
|  | \$        | \$        |
|  | 62,953,00 | 66,731,00 |
|  | 1         | 9         |

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 19. Other Liabilities (continued)

(2) Includes in 2012, income received for third parties for losses of \$17,775,912, promissory note of Telenariño \$18,941,520, telephone books \$9,074,578, income for third parties Telecom in liquidation and Telesociadas for \$16,704,379. In 2011 includes income received for third parties for losses of \$9,022,199, promissory note of Telenariño \$18,941,520, telephone books \$9,074,578 and income for third parties Telecom in liquidation and Telesociadas for \$7,888,216.

(3) Mainly includes funds received for the development of the III Biannual Plan.

#### 20. Shareholders' Equity, Net

##### Capital

The Company's capital may increase or decrease at any time through the corresponding amendment of the bylaws, processed and approved by the General Shareholders' Meeting and duly formalized by the Law, the Investment Master Agreement and the Bylaws.

At June 30, 2012 and 2011 the authorized, subscribed and paid capital was \$1,454,870,740 and \$909,928,516, respectively.

On June 29, 2012, as a result of the merging with Telefónica Móviles Colombia S.A., the shareholders agreed (as stated in the Merging Public Deed number 1751) to increase the paid-in capital by \$544,942,224 with the balancing entry in the "Additional paid-in capital" account. Therefore, 544,942,224 Class B ordinary shares were issued to the shareholders of the absorbed company for a par value of one thousand Colombian pesos (COP\$ 1,000) each.

As a result of the above, Colombia Telecomunicaciones S.A. ESP share as a result of the merging will be as follows:

|                                |                  |
|--------------------------------|------------------|
| Authorized capital:            | \$ 1,454,870,740 |
| Subscribed and paid capital:   | 1,454,870,740    |
| Number of outstanding shares:  | 1,454,870        |
| Par value (in Colombian pesos) | \$ 1,000         |

Based on the above, the equity participation at June 30, 2012 is shown below:

| Company  | No. of Shares        | Value                   |
|--|----------------------|-------------------------|
| Telefónica Internacional S.A.U.                      | 473,457,094          | \$ 473,457,094          |
| La Nación – Ministerio de Hacienda y Crédito Público | 436,461,222          | 436,461,222             |
| Olympic Ltda., En Liquidación                        | 275,603,185          | 275,603,185             |
| Telefónica S.A.                                      | 269,339,035          | 269,339,035             |
| Radio Televisión Nacional de Colombia – RTVC         | 10,000               | 10,000                  |
| Canal Regional de Televisión Ltda. TEVEANDINA        | 200                  | 200                     |
| Latin America Cellular Holdings B.V.                 | 2                    | 2                       |
| Central de Inversiones S.A. – CISA –                 | 1                    | 1                       |
| Terra Networks Colombia S.A.S                        | 1                    | 1                       |
|  | <b>1,454,870,740</b> | <b>\$ 1,454,870,740</b> |

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 20. Shareholders' Equity, Net (continued)

The equity participation at June 30, 2011 is shown below:

|   | <u>Value</u>          |
|---|-----------------------|
| Telefónica Internacional S.A.U.                                 | \$ 473,457,093        |
| Nation, represented by Ministerio de Hacienda y Crédito Público | 436,461,222           |
| Radio Televisión Nacional de Colombia – RTVC                    | 10,000                |
| Sociedad Canal Regional de TV – Teveandina                      | 200                   |
| Central de Inversiones S.A. – CISA                              | 1                     |
|   | <u>\$ 909,928,516</u> |

#### *Additional paid-in capital*

The balance is comprised by the difference between each share's par value and its placement price. This account's value is no feasible of being distributed as dividends.

#### *Legal Reserve*

The Company is required to appropriate as a legal reserve 10% of its annual net profits, until the balance of this reserve is equivalent to 50% of subscribed capital. The reserve is not distributable before the liquidation of the Company, but may be used to absorb or reduce losses. Appropriations in excess of the above mentioned 50% are at the free disposition of the general shareholders' meeting.

#### *Tax Depreciation*

In accordance with tax regulations when the Company requests in its income tax return the depreciation amounts that exceed the value of those accounted for, constitutes a non-distributable reserve, equivalent to 70% of the higher amount claimed as a deduction. When the requested depreciation is lower than the accounted value, the Company may release from such reserve an amount equivalent to 70% of the difference between the requested value and the accounted one; profits released from the reserve may be distributed as a revenue not constituting income.

#### 21. Memorandum Accounts

The balance of memorandum account at June 30 comprised of:

|                                       | <u>2012</u>   | <u>2011</u>   |
|---------------------------------------|---------------|---------------|
| Debit accounts:                       |               |               |
| Contingent rights:                    |               |               |
| Goods held by third parties           | \$ 15,442,489 | \$ –          |
| Contracts to be executed              | 3,066,312,771 | 1,233,158,139 |
| Contingent rights from the concession | 56,723,317    | –             |
| Trusts                                | 265,336       | 265,337       |
| Litigation and/or lawsuits in favor   | 53,882,146    | 733,274       |
|                                       | 3,192,626,059 | 1,234,156,750 |

# Colombia Telecomunicaciones S.A. E.S.P.

## Notes to the Special Purpose Financial Statements (continued)

### 21. Memorandum Accounts (continued)

|  | <u>2012</u>                    | <u>2011</u>                    |
|--|--------------------------------|--------------------------------|
| Tax: (Note 25)   |                                |                                |
| Accumulated tax losses   | 2,176,577,703                  | 716,360,171                    |
| Excess of presumptive income                                     | 311,954,807                    | -                              |
|  | <u>2,488,532,510</u>           | <u>716,360,171</u>             |
| Control accounts:  |                                |                                |
| Adjustments for assets inflation                                 | 1,189,533,976                  | -                              |
| Written-off assets   | 627,085,408                    | -                              |
| Written-off accounts receivable                                  | 319,386,350                    | 319,386,350                    |
| Furniture, fixtures and office equipment                         | 1,726,523,993                  | 220,853,236                    |
|  | <u>3,862,529,727</u>           | <u>540,239,586</u>             |
| Total debit memorandum accounts                                  | <u>\$ 9,543,688,296</u>        | <u>\$ 2,490,756,507</u>        |
| Credit accounts  |                                |                                |
| Tax: (Note 25)   |                                |                                |
| Difference between accounting and tax equity                     | \$ 245,110,277                 | \$ 143,466,422                 |
| Differences between accounting and tax depreciation              | 14,019,441                     | -                              |
| Difference between accounting and tax loss                       | 44,039,228                     | 223,462,968                    |
|  | <u>303,168,946</u>             | <u>366,929,390</u>             |
| Control accounts:  |                                |                                |
| Assets corresponding to Telecom and Teleasociadas in liquidation | 1,099,078,994                  | 1,323,283,666                  |
| Equity inflation adjustments                                     | 607,482,707                    | -                              |
| Other control accounts   | 242,466,075                    | 242,466,075                    |
|  | <u>\$ 1,949,027,776</u>        | <u>\$ 1,565,749,741</u>        |
| <b>Contingent Liabilities (not Probable):</b>                    |                                |                                |
| Group action per rate  | \$ 2,530,671,378               | \$ 4,508,912,477               |
| Unfair competence  | 379,210                        | -                              |
| Executive and ordinary action costs                              | -                              | 43,358,948                     |
| Contingent liabilities   | 29,583,647                     | 30,365,407                     |
| Legal actions  | 11,758,841                     | 30,205,589                     |
| Nullity and restitution  | 15,086,611                     | 26,109,773                     |
| Shares incentives  | 262,753,467                    | 16,550,040                     |
| Direct repair  | 1,000,996,510                  | 11,905,018                     |
| Arbitration courts   | 37,847,112                     | 8,320,000                      |
| Labor  | 6,188,732                      | 74,314,698                     |
| Abbreviated  | 505,000                        | 1,341,615                      |
| Coactive jurisdiction  | 15,631,487                     | 13,669,183                     |
| Petitions, complaints and claims                                 | 1,271,308                      | 1,275,264                      |
| Administrative   | 8,740,253                      | 1,918,342                      |
| Civil  | 736,169,913                    | 6,718,537                      |
| Tax  | 40,837,698                     | 11,766                         |
| Other processes  | -                              | 28,950,321                     |
|  | <u>\$ 4,698,421,167</u>        | <u>\$ 4,803,926,978</u>        |
| PARAPAT payment obligation                                       | \$ 463,972,615                 | \$ 749,956,707                 |
| Contractual guarantees   | 64,736,686                     | 54,210,000                     |
| Other liabilities  | 11,479,623                     | -                              |
| Other assets given in custody                                    | -                              | 14,288                         |
|  | <u>540,188,924</u>             | <u>804,180,995</u>             |
| <b>Total credit memorandum accounts</b>                          | <u><b>\$ 7,490,806,813</b></u> | <u><b>\$ 7,540,787,104</b></u> |

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 22. Operating Revenue, Net

Operating revenue for the semester ended June 30 was comprised by:

|   | <u>2012</u>             | <u>2011</u>           |
|---|-------------------------|-----------------------|
| <b><i>Telecommunication services – Fixed operation:</i></b>   |                         |                       |
| Data transmission service                                     | \$ 306,791,265          | \$ 299,478,242        |
| Local telephony   | 283,190,233             | 310,263,742           |
| National and International long distance                      | 115,236,180             | 157,280,077           |
| Other telecommunication and connected services (1)            | 71,148,620              | 72,530,238            |
| Television service  | 41,432,296              | 33,355,599            |
| Leasing of voice, data and other equipment (2)                | 30,642,906              | 31,169,956            |
| Wholesale and retail commerce – sale of equipment             | 16,701,263              | 22,389,663            |
| <b><i>Telecommunications services – Mobile operation:</i></b> |                         |                       |
| Basic charges and time on air                                 | 851,893,621             | –                     |
| Income from sale of terminal equipment                        | 117,211,874             | –                     |
| Supplementary and complementary services                      | 80,919,766              | –                     |
| Incoming minutes  | 26,618,914              | –                     |
| Roaming   | 28,692,620              | –                     |
| Other operating revenue, net                                  | 11,515,819              | –                     |
|   | <u>\$ 1,981,995,377</u> | <u>\$ 926,467,517</u> |

(1) Includes, among others, State subsidy revenues from IT work positions – PDTI, turnkey projects, IT security services, housing and hosting and hubbing, as well as income from telephone books, reconnections and other telephony and aggregate value services – SVAs.

(2) Includes income from granting of rights of use and enjoyment of sites and towers of \$7,028,823 in 2012 and \$5,763,304 in 2011.

#### 23. Cost of Sales and of Rendering of Services

The cost of sales and of rendering services for the semester ended June 30 was comprised by:

|  | <u>2012</u>    | <u>2011</u>    |
|--|----------------|----------------|
| Access and interconnection charges           | \$ 149,245,498 | \$ 189,127,549 |
| PARAPAT compensation (1)                     | 65,694,280     | 266,391,352    |
| Maintenance and repairs orders and contracts | 56,029,828     | 54,222,035     |
| Orders and contracts for other services      | 34,962,522     | 29,544,619     |
| Utilities                                    | 25,344,478     | 29,412,329     |
| Licenses, contributions and royalties        | 25,199,250     | 26,409,439     |
| Personnel costs                              | 19,627,220     | 21,942,154     |
| Leases                                       | 11,089,589     | 4,479,794      |
| Costs of equipment                           | 32,253,228     | 40,056,466     |
| Fees   | 6,488,317      | 8,101,716      |
| Miscellaneous                                | 4,232,655      | 2,689,949      |
| Travel allowances and costs                  | 1,716,879      | 2,255,709      |



## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 23. Cost of Sales and of Rendering of Services

|  | <u>2012</u>                  | <u>2011</u>                  |
|--|------------------------------|------------------------------|
| Printing and publications                        | 1,260,739                    | 1,794,092                    |
| Transport and freight                            | 295,820                      | 1,064,612                    |
| Compensation rate                                | 40,517,849                   | –                            |
| Terminal and accessories equipment costs– Mobile | 163,723,839                  | –                            |
| Mobile and data network cost                     | 115,182,444                  | –                            |
| Local fixed network interconnection cost         | 17,422,011                   | –                            |
|  | <u><u>\$ 770,286,446</u></u> | <u><u>\$ 677,491,815</u></u> |

(1) Corresponds to the value accounted in accordance with service contract agreed with PARAPAT, during first and second semester, 2012 and 2011, respectively.

#### 24. Operating Administrative and Selling Expenses

Operating administrative expenses for the period of six months ended June 30 are detailed below:

|                                      | <u>2012</u>                  | <u>2011</u>                  |
|--------------------------------------|------------------------------|------------------------------|
| Administrative expenses:             |                              |                              |
| Utilities                            | \$ 93,662,265                | \$ 33,961,575                |
| Personnel expenses                   | 62,692,476                   | 26,575,575                   |
| Maintenance and repairs              | 54,547,738                   | 6,366,947                    |
| Taxes, levies and charges            | 47,799,247                   | 26,632,771                   |
| Lease                                | 44,026,909                   | 2,650,730                    |
| Fees                                 | 8,833,159                    | 7,054,926                    |
| Legal expenses (1)                   | 8,287,271                    | 23,485                       |
| Insurance                            | 6,328,815                    | 4,373,969                    |
| Travel expenses                      | 3,135,105                    | 1,340,374                    |
| Contributions and affiliations       | 777,199                      | 163,770                      |
| Miscellaneous                        | 10,861,348                   | 6,377,049                    |
|                                      | <u><u>\$ 340,951,532</u></u> | <u><u>\$ 115,521,171</u></u> |
| Selling expenses:                    |                              |                              |
| Commissions                          | \$104,396,552                | \$ 22,447,424                |
| Services (Customer service)          | 61,111,697                   | 34,180,609                   |
| Advertising, publicity and promotion | 60,282,217                   | 25,010,728                   |
| Personnel expenses                   | 56,087,645                   | 41,799,988                   |
|                                      | <u><u>\$281,878,111</u></u>  | <u><u>\$123,438,749</u></u>  |

(1) Includes legal expenses and the merging formalization with Telefónica Móviles Colombia S.A.

#### 25. Income Tax

Tax regulations applicable to the Company establish the following:

- (a) As of 2008, the income tax provision is computed at the rate of 33% by the accrual method on the basis of net income. The income tax returns may be reviewed by the tax authorities within 2 years of their filing date. The income tax returns for 2008, 2009, 2010 and 2011 are open for review by the DIAN.

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 25. Income Tax (continued)

- (b) In accordance with Article 73 of Law 1341 of 2009 and Article 24 of Law 142 of 1994, telecommunication companies, companies that render basic commuted public telephone services, local mobile telephony in the rural sector and long distance are excluded from presumptive income.
- (c) The excess of presumptive income over ordinary income as of 2003 may only be compensated with net ordinary income made over the following five years. In all cases excess of presumptive income over net ordinary income may be readjusted for tax purposes as of taxable year 2007.
- (d) As of 2007 companies may offset without any limitation tax losses with ordinary income, notwithstanding the year's presumptive income. In all cases, tax losses generated are readjusted for tax purposes as of taxable year 2007. Tax losses resulting from the merging with Telefonica Móviles Colombia S.A. were reduced by \$207,214 million.
- (e) According to Article 147 of the Tax Code, upon the merging process, the absorbing or resulting entity may compensate with the net ordinary income, any tax losses suffered from the merging companies, up to a limit equivalent to the percentage of participation in the merged companies in the resulting or absorbing company's equity.
- (f) According to Article 1 of Regulatory Decree 1766 of 2004, companies were able to deduct 40% of their investment for a single time from the income tax value, in the tax period in which real productive fixed assets were acquired, all of this until 2009 and 30% for taxable year 2010. As of the issuance of Law 1430 of 2010, Article 1 eliminates the special deduction for investment in real productive fixed assets as of taxable year 2011.
- (g) However, the aforementioned regulation stated that those who had filed a request for legal stability contracts before November 1, 2010, including the stabilization of the deduction for the investment in the fixed assets referred to in Article 158–3 of the Tax Code and which premium was set based on the total investment value which was the purpose of the stability, could sign a legal stability contract which includes such deduction. In these cases, the legal stability term of the special deduction, may not exceed three (3) years. The Company submitted the respective request before November 1, 2010, however this benefit was not recognized, given that the request is still pending approval.

The following is a summary of the main reconciling items between accounting and tax values at June 30:

|   | <u>2012</u>          | <u>2011</u>          |
|---|----------------------|----------------------|
| Accounting equity                               | \$ 1,800,066,297     | \$ 830,020,477       |
| Plus: items that increase accounting equity:    |                      |                      |
| Accumulated amortization of goodwill            | 863,744,211          | –                    |
| Accumulated accounting amortization of licenses | 340,171,182          | 323,205,069          |
| Accumulated accounting depreciation             | 728,038,482          | 670,456,115          |
| Accumulated accounting amortization of software | 177,133,577          | 13,788,756           |
| Liabilities with foreign related parties        | 10,072,986           | 22,758,745           |
| Estimated liabilities and provisions            | 489,359,385          | 233,999,867          |
| Provision for accounting accounts receivable    | 819,608,534          | 283,420,168          |
| Provision for inventories                       | 5,697,654            | 3,242,976            |
|   | <u>3,433,826,011</u> | <u>1,550,871,696</u> |

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 25. Income Tax (continued)

|   | <u>2012</u>             | <u>2011</u>             |
|---|-------------------------|-------------------------|
| Less: items that decrease accounting equity:        |                         |                         |
| Goodwill accounting value                           | (931,121,624)           | –                       |
| Accumulated tax amortization of licenses            | (512,659,997)           | (512,659,997)           |
| Accumulated tax depreciation                        | (801,087,425)           | 8693,932,624)           |
| Deferred Tax on net worth                           | (114,006,736)           | (67,040,407)            |
| Municipal self tax withholding and advances         | (6,725,300)             | (3,615,233)             |
| Accumulated tax–accounting amortization of software | (54,939,776)            | (33,970,916)            |
| Valuations  | (466,898,687)           | (1,317,093)             |
| Provision for tax accounts receivable               | (301,276,189)           | (54,172,371)            |
|   | <u>(3,188,715,734)</u>  | <u>(1,366,708,641)</u>  |
| Net tax equity                                      | <u>\$ 2,045,176,574</u> | <u>\$ 1,014,183,532</u> |

Below is the reconciliation between the accounting loss before tax and the estimated tax loss at June 30:

|   | <u>2012</u>             | <u>2011</u>             |
|---|-------------------------|-------------------------|
| Loss before income tax                                    | \$ (197,393,888)        | \$ (303,317,346)        |
| Add – non–deductible expenses:                            |                         |                         |
| Non–deductible depreciation and amortization              | 142,482,562             | 121,592,057             |
| Provision for doubtful accounts, net                      | 38,987,991              | 25,340,892              |
| Goodwill amortization                                     | 19,257,091              | –                       |
| Tax on net worth  | 9,577,201               | 9,577,201               |
| Provision for municipal tax                               | 15,045,340              | 8,826,681               |
| Excess of tax over accounting amortization – software     | 25,171,172              | 4,735,829               |
| Recovery of the deduction of real productive fixed assets | 1,120,884               | 2,180,457               |
| Donations   | 270,753                 | 577,000                 |
| Provision for the protection of inventories               | 564,494                 | –                       |
| Provision for contingencies                               | 1,663,631               | 613,932                 |
| Tax on financial transactions                             | 9,953,181               | 3,512,358               |
| Fines, penalties and interests                            | 96,773                  | (264,303)               |
| Calculation of presumptive income                         | 60,283                  | –                       |
| Stamp tax   | –                       | 134,498                 |
| Other rates and taxes                                     | 3,473,545               | 752,473                 |
| Other term and extraordinary expenses                     | 304,366                 | –                       |
| Other non–deductible expenses – accounting provisions     | 63,172,100              | 107,630,103             |
| Total non–deductible expenses:                            | <u>331,201,367</u>      | <u>285,209,178</u>      |
| Less – Tax deductions and non–taxable income:             |                         |                         |
| Depreciation and tax amortization                         | (95,253,280)            | (105,866,737)           |
| Payment of municipal tax                                  | (23,101,179)            | (11,541,631)            |
| Provision for tax accounts receivable                     | (139,501,851)           | (25,699,640)            |
| Valuation of financial instruments                        | (14,836,745)            | –                       |
| Non–taxable income  | (14,469,085)            | (874,897)               |
| Total tax deductions and non–taxable income:              | <u>(287,162,140)</u>    | <u>(143,982,905)</u>    |
| Tax loss  | <u>\$ (153,354,661)</u> | <u>\$ (162,091,073)</u> |

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 25. Income Tax (continued)

##### Tax Losses

At June 30, 2012 the Company accumulated tax losses of \$2,176,577, which according to the tax legislation in force may be used to offset future taxable income, if any, without limit of time and amount. In all cases tax losses are annually readjusted.

Tax losses were originated as follows:

| Year  | Tax Loss Amount     | Inflation<br>Adjustment – Tax<br>Readjustment | Balance to Be<br>Amortized or<br>Offset | Expiration<br>Date |
|---|---------------------|---|---|--------------------|
| <i>(Amounts in millions of Colombian pesos)</i> |                     |   |   |                    |
| 2006  | \$ 70,281           | \$ 17,006                                     | \$ 87,287                               | Unlimited          |
| 2007  | 176,518             | 31,974  | 208,492                                 | Unlimited          |
| 2008  | 250,175             | 24,063  | 274,238                                 | Unlimited          |
| 2009  | 604,673             | 36,799  | 641,472                                 | Unlimited          |
| 2010  | 316,515             | 11,553  | 328,068                                 | Unlimited          |
| 2011  | 483,667             | –   | 483,667                                 | Unlimited          |
| 2012  | 153,354             | –   | 153,354                                 | Unlimited          |
|   | <b>\$ 2,055,183</b> | <b>\$ 121,395</b>                             | <b>\$ 2,176,577</b>                     |                    |

The tax losses absorbed upon the merging with Telefónica Móviles Colombia S.A., and that may be compensated in future taxable years in accordance with Article 147 of the Tax Code amount to \$886,835 million Colombian pesos.

The excess of presumptive income over ordinary income at June 30, 2012 is as follows:

| OriginYear                                      | Excess Amount     | Inflation<br>Adjustment – Tax<br>Readjustment | Balance to be<br>Offset | Expiration<br>Year |
|---|-------------------|---|-------------------------|--------------------|
| <i>(Amounts in millions of Colombian pesos)</i> |                   |   |                         |                    |
| 2007  | \$ 61,984         | \$ 11,228                                     | \$ 73,212               | 2012               |
| 2008  | 56,687            | 5,452   | 62,139                  | 2013               |
| 2009  | 63,261            | 3,850   | 67,111                  | 2014               |
| 2010  | 54,603            | 1,993   | 56,596                  | 2015               |
| 2011  | 52,897            | –   | 52,897                  | 2016               |
|   | <b>\$ 289,432</b> | <b>\$ 22,523</b>                              | <b>\$ 311,955</b>       |                    |

Although income tax returns for taxable years 2008, 2009, 2010 and 2011 may be reviewed by the tax authorities within the stated period, in the opinion of management, in the event that occurs, no significant differences are expected which involve a change in the tax calculated, or the assessment of penalties that lead to the recognition of contingencies in the financial statements. The following chart summarizes the status of the income tax returns to be subject to the review by the tax authorities:

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 25. Income Tax (continued)

| <u>Taxable Year</u> | <u>Closing Date for Review</u> |
|---------------------|--------------------------------|
| 2011                | April 2017                     |
| 2010                | April 2016                     |
| 2009                | November 2016                  |
| 2008                | September 2014                 |

The 2011 income tax return reflected a balance in favor for \$27,751 million of which \$19,407 million were offset with the 2012 VAT return of the second bimonthly period.

#### *Tax on net worth*

Law 1370 of 2009 established an Tax on net worth for taxable year 2011 payable by legal entities, individuals and de facto companies. This tax is generated upon the ownership of equity at January 1, 2011, whose amount is equal or exceeds \$3,000 million Colombian pesos. The Tax on net worth rate is four point eight percent (4.8%) for equities which taxable base is equal to or higher than \$5,000 million Colombian pesos.

By means of Decree No. 4825 of 2010 tax measures were adopted under the economic, social and ecological emergency framework declared by Decree 4580 of 2010, in order to generate resources required to mitigate the effects of the winter season and created a surtax of 25% on the existing Tax on net worth .

The Tax on net worth was determined as follows:

|                            |                       |
|----------------------------|-----------------------|
| Net equity 01/01/2011      | \$ 3,040,179,493      |
| Tax on net worth 4.8% rate | 145,928,616           |
| Surtax 25%                 | 36,482,154            |
| Total Tax on net worth     | <u>\$ 182,410,770</u> |

#### *Equity Revaluation*

The Company opted in 2011 for the alternate accounting treatment of recording as deferred charges the portion pending payment of the Tax on net worth and the surtax for a total of \$114,006,735 to be amortized during the payment period from 2011 to 2014; the amount paid for Tax on net worth in 2011 was \$45,603,000 and during the period from January 1 to June 30 of 2012 it was \$22,801,347.

Telefónica Móviles Colombia S.A. until June 2012, opted for the alternate treatment of recording as a lower value of the equity revaluation account the portion paid of the Tax on net worth and the surtax. On the other hand, Colombia Telecomunicaciones S.A. ESP recorded in 2012 an expense for this concept of \$9,577,201 which according to the decision made at the General Shareholders' Meeting in Minute No. 46 of 31, August 2012 of the General Shareholder's Meeting, the shareholders authorized the amortization of \$123,584 million against the equity revaluation, from which \$57,463 million correspond to Colombia Telecomunicaciones S.A. ESP and \$66,121 million to Telefónica Móviles Colombia S.A. (today Colombia Telecomunicaciones S.A. ESP).

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 25. Income Tax (continued)

##### *Transfer Pricing*

As of 2004, the requirement to make a transfer pricing study was enforced in order to support the operations the Company has entered into with its foreign and local related parties. At the date of this report the Company is in process of preparing the transfer pricing study that will permit determining the effect in respect of the 2011 income tax provision, although the Company's Management estimates that there will be no significant adjustment in such calculation.

#### 26. Financial Expenses, Net

Net financial expenses for the period of six months ended June 30 is detailed below:

|  | <u>2012</u>             | <u>2011</u>            |
|--|-------------------------|------------------------|
| Income:                                      |                         |                        |
| Late-payment interests                       | \$ 4,735,190            | \$ 1,318,465           |
| Financial yields                             | 2,269,259               | -                      |
| Net income from exchange difference          | 992,025                 | -                      |
| Interests from collected financing           | 82,252                  | 84,272                 |
| Other financial income                       | 6,022,062               | 3,492,493              |
|  | <u>14,100,787</u>       | <u>4,895,230</u>       |
| Expenses:                                    |                         |                        |
| Interests from loans                         | (125,001,064)           | (48,358,348)           |
| Late payment obligation interests on Parapat | (46,918,219)            | (16,447,664)           |
| Bank commissions                             | (19,541,513)            | (4,360,531)            |
| Net exchange difference expense              | -                       | (787,970)              |
| Other financial expenses                     | (3,745,555)             | (896,922)              |
|  | <u>(195,206,351)</u>    | <u>(70,851,435)</u>    |
|  | <u>\$ (181,105,563)</u> | <u>\$ (65,956,205)</u> |

#### 27. Other Non-Operating Revenue (Expenses), Net

Other non-Operating Revenue (expenses) net for the period of six months ended June 30 is detailed below:

|   | <u>2012</u>       | <u>2011</u>      |
|---|-------------------|------------------|
| Income:                                       |                   |                  |
| Recoveries (1)                                | \$ 24,108,186     | \$ 1,825,131     |
| Income from customer non compliance           | 2,893,048         | -                |
| Loss indemnity                                | 1,584,987         | 6,978,510        |
| Rental of sites and equipment                 | 1,456,301         | -                |
| Collection of accounts receivable written-off | 518,968           | -                |
| Excess inventory                              | 49,909            | -                |
| Other non-Operating revenue                   | 1,329,858         | 322,856          |
|   | <u>31,941,257</u> | <u>9,126,497</u> |

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 27. Other Non-Operating Revenue (Expenses), Net

|  | <u>2012</u>         | <u>2011</u>           |
|--|---------------------|-----------------------|
| Expenses:  |                     |                       |
| Litigation, penalties and contingencies            | (7,796,284)         | (2,391,129)           |
| Amortization of Assets given in commodatum         | (3,859,832)         | (5,267,182)           |
| Adjustments of campaigns of late payment portfolio | (3,130,013)         | -                     |
| Assumed taxes                                      | (1,703,143)         | (3,288,249)           |
| Loss from equipment written off (Note 10 and 12)   | (1,412,473)         | (1,949,038)           |
| Loss on the sale of investments                    | (379,021)           | -                     |
| Donations  | (270,752)           | (577,000)             |
| Other non-operating expenses                       | (4,153,895)         | (1,707,166)           |
|  | <u>(22,705,413)</u> | <u>(15,179,764)</u>   |
|  | <u>\$ 9,235,844</u> | <u>\$ (6,053,267)</u> |

(1) Income from recoveries during the period from January 1 to June 30, are detailed below:

|   | <u>2012</u>          | <u>2011</u>         |
|---|----------------------|---------------------|
| Prior years' assumed taxes                  | \$ 8,977,770         | \$ -                |
| Prior periods costs and expenses            | 6,763,752            | 950,234             |
| Management fee 2011                         | 3,221,109            | -                   |
| Accrued accounts receivable                 | 2,477,415            | -                   |
| Development expenses                        | 1,376,443            | -                   |
| Stocks provisions (Note 9)                  | 769,794              | -                   |
| Other recoveries of collaboration contracts | 521,901              | -                   |
| Recovery of the provision for PP&E          | -                    | 874,897             |
|   | <u>\$ 24,108,184</u> | <u>\$ 1,825,131</u> |

#### 28. Related Parties, Associated Companies and Shareholders

The following is a summary of assets and liabilities at June 30, 2012 and 2011 and of the Company's income and costs and expenses for transactions entered during the periods from January 1 and June 30 with related parties, associated companies and shareholders:

##### a) Local related parties

|                                    | <u>Accounts Receivable</u> |                     | <u>Accounts Payable</u> |                     | <u>Income</u>      |                     | <u>Costs and expenses</u> |                     |
|------------------------------------|----------------------------|---------------------|-------------------------|---------------------|--------------------|---------------------|---------------------------|---------------------|
|                                    | 2012                       | 2011                | 2012                    | 2011                | 2012               | 2011                | 2012                      | 2011                |
| <b>Local</b>                       |                            |                     |                         |                     |                    |                     |                           |                     |
| Telefónica Factoring Colombia S.A. | \$30,011,144               | \$ 32,680           | \$ 144,206              | \$ -                | \$1,508,660        | \$ -                | \$ 58                     | -                   |
| Tiws Colombia                      | 7,150,415                  | 6,436,090           | 11,530,720              | 682,435             | 6,205,136          | 5,519,778           | 10,986,702                | 8,903,226           |
| Olympic Ltda.                      | 2,395,626                  | -                   | -                       | -                   | -                  | -                   | -                         | -                   |
| Atento Colombia S.A.               | 1,091,085                  | 553,077             | 13,209,643              | 6,345,168           | 885,603            | 1,018,862           | 20,549,618                | 12,536,073          |
| Wayra Colombia S.A.S.              | 571,607                    | -                   | -                       | -                   | -                  | -                   | -                         | -                   |
| Terra Networks Colombia S.A.       | 331,815                    | 92,111              | 2,195,917               | 2,984,320           | 114,323            | 25,277              | 2,389,800                 | 2,909,856           |
| Telefónica Móviles Colombia S.A.   | -                          | 22,001,263          | -                       | 22,387,276          | -                  | 33,242,811          | -                         | 15,646,422          |
| Fundación Telefónica Colombia      | -                          | -                   | -                       | 630,367             | -                  | -                   | -                         | -                   |
| <b>Total National</b>              | <u>\$41,551,692</u>        | <u>\$29,115,221</u> | <u>\$27,080,486</u>     | <u>\$33,029,566</u> | <u>\$8,713,722</u> | <u>\$39,806,728</u> | <u>\$33,926,178</u>       | <u>\$39,995,577</u> |

# Colombia Telecomunicaciones S.A. E.S.P.

## Notes to the Special Purpose Financial Statements (continued)

### 28. Related Parties, Associated Companies and Shareholders (continued)

#### b) Foreign Related Parties

|  | Accounts Receivable |                   | Accounts Payable  |                   | Income            |                   | Costs And Expenses |                   |
|--|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|-------------------|
|  | 2012                | 2011              | 2012              | 2011              | 2012              | 2011              | 2012               | 2011              |
| <b>Foreign:</b>                              |                     |                   |                   |                   |                   |                   |                    |                   |
| Telcel Venezuela                             | \$ 4,220,181        | \$ 7,068,011      | \$ 229,909        | 794,326           | 3,095,075         | 3,367,494         | 620,245            | –                 |
| Telefónica de España                         | 2,305,803           | 6,977,109         | 846,076           | 1,989,128         | –                 | 4,286,106         | 825,719            | 1,498,188         |
| Otecel S.A.                                  | 1,853,720           | –                 | 310,187           | 177,398           | 1,753,937         | 82,739            | 574,912            | 510,181           |
| Tiws España S.L.                             | 1,544,520           | 2,011,382         | 23,555,889        | 17,142,701        | 541,266           | 603,512           | 8,028,672          | 6,133,769         |
| Telefónica USA                               | 1,164,830           | 571,060           | 1,986,331         | 1,148,837         | 200,042           | –                 | 1,032,645          | 1,234,332         |
| Wayra Investigación y Desarrollo             | 1,049,260           | –                 | –                 | –                 | –                 | –                 | –                  | –                 |
| Pegaso PCS S.A. de C.V.                      | 650,973             | –                 | 1,126,556         | 102,529           | 64,389            | –                 | 231,721            | 5,236             |
| T 02 UK Ltd.                                 | 643,174             | –                 | 973,375           | –                 | 326,016           | –                 | 26,521             | –                 |
| TLD Puerto Rico                              | 553,441             | 1                 | 4,820             | 511               | 97,455            | 37,631            | 15,592             | –                 |
| Telefónica S.A.                              | 517,307             | 197,238           | 19,244,021        | 1,053,460         | 6,545             | –                 | 19,778,279         | 823,305           |
| Telefónica de Argentina                      | 515,901             | 473,589           | 109,773           | 73,056            | 577,887           | 482,749           | 106,922            | –                 |
| Telefónica Mundo Chile S.A.                  | 460,595             | 705,585           | 224,324           | 653,214           | 300,491           | 505,023           | 118,733            | 431,097           |
| Vivo S.A.                                    | 431,408             | –                 | 275,739           | –                 | 281,543           | –                 | 168,908            | –                 |
| T Móviles Panamá                             | 429,230             | 555,837           | 266,889           | 460,691           | 502,136           | 240,688           | 174,745            | 119,302           |
| T, 02 Germany GMBH CO OHG                    | 429,138             | –                 | 698               | –                 | 22,797            | –                 | 84,010             | –                 |
| Atento España                                | 325,451             | 670,119           | –                 | –                 | 594,219           | 524,033           | –                  | –                 |
| Telefónica del Perú                          | 323,646             | 1,039,314         | 339,019           | 1,384,954         | 114,532           | –                 | 118,683            | 1,799,001         |
| T Móviles Argentina                          | 225,985             | –                 | 123,595           | –                 | 258,075           | –                 | 116,151            | –                 |
| Telefónica Internacional S.A.U.              | 175,520             | 2,280,665         | 13,675,483        | 1,756,485         | 7,452,492         | –                 | –                  | 477,741           |
| T, 02 Ireland Ltd                            | 129,465             | –                 | –                 | –                 | 7,476             | –                 | 687                | –                 |
| T Móviles Chile                              | 115,168             | –                 | 88,043            | –                 | 192,787           | –                 | 113,880            | –                 |
| T Móviles Perú                               | 99,065              | –                 | 239,798           | –                 | 98,203            | –                 | 293,389            | –                 |
| T–Gestiona España                            | –                   | 27,352            | –                 | –                 | –                 | –                 | –                  | –                 |
| T Móviles Guatemala                          | 71,819              | 170,809           | 63,424            | 32,707            | 60,844            | 101,692           | 62,009             | 19,083            |
| Telesp Fija                                  | 71,241              | 126,143           | 2,509,987         | 2,812,162         | 72,633            | 79,100            | 2,622,677          | 2,801,421         |
| T,02 Czech Republica S.                      | 60,335              | –                 | –                 | –                 | 552               | –                 | 9,213              | –                 |
| T Contenidos                                 | 41,312              | 77,260            | –                 | –                 | –                 | –                 | –                  | –                 |
| Tiws Brasil                                  | 27,542              | 41,027            | –                 | –                 | –                 | –                 | –                  | –                 |
| T, Móviles del Uruguay                       | 26,676              | –                 | 16,843            | –                 | 26,907            | –                 | 14,813             | –                 |
| Terra Networks México, S.A. de C.V.          | 13,770              | 13,675            | –                 | –                 | –                 | –                 | –                  | –                 |
| T Móviles el Salvador                        | 11,373              | –                 | 43,071            | –                 | 7,870             | –                 | 29,537             | –                 |
| T Móviles Nicaragua                          | 4,646               | –                 | 5,381             | –                 | 4,015             | –                 | 6,599              | –                 |
| Terra Perú                                   | –                   | 134               | –                 | –                 | –                 | –                 | –                  | –                 |
| T–Gestiona Argentina – T GSC                 | –                   | –                 | –                 | 329,960           | –                 | 15,360            | –                  | –                 |
| T–Gestiona Chile                             | –                   | –                 | 84,759            | 77,507            | –                 | 567,965           | 73,196             | –                 |
| Telefónica Investigación y Desarrollo        | –                   | –                 | 42,000            | 58,202            | –                 | 707,528           | –                  | –                 |
| Telefónica Compras Elect,                    | –                   | –                 | 1,689,186         | 3,416,076         | –                 | –                 | 1,877,827          | 1,080,342         |
| Telefónica Ingeniería Seguridad              | –                   | –                 | 474,852           | 274,748           | –                 | –                 | 268,290            | –                 |
| Telefónica Servicios de Música               | –                   | –                 | 120,546           | 303,876           | –                 | –                 | 289,119            | 482,194           |
| Telefónica Móviles Soluciones y Aplicaciones | –                   | –                 | 1,415,962         | –                 | –                 | –                 | 1,415,962          | –                 |
| Media Networks Latin A,                      | –                   | –                 | 4,390,704         | 3,961,765         | –                 | –                 | 5,640,409          | 6,309,068         |
| Atento Servicios Técnicos y Consultoría SL   | –                   | –                 | –                 | –                 | –                 | –                 | –                  | 856               |
| Atesecco Comunicación                        | –                   | –                 | 4,097,385         | 3,283,856         | –                 | –                 | 9,907,169          | 8,696,713         |
| Televisión Federal S.A.                      | –                   | –                 | 39,902            | 24,598            | –                 | –                 | 30,789             | 52,042            |
| Telefónica Learning Service S.L.U.           | –                   | –                 | 32,920            | –                 | 5,593             | –                 | –                  | –                 |
| Telefonica Global Application                | –                   | –                 | 326,523           | –                 | –                 | –                 | 344,981            | –                 |
| T Móviles España                             | –                   | –                 | 4,247,708         | –                 | 2,980,709         | –                 | 1,276,028          | –                 |
| <b>Total Foreign</b>                         | <b>18,492,495</b>   | <b>23,006,310</b> | <b>83,221,678</b> | <b>41,312,747</b> | <b>19,646,486</b> | <b>11,601,620</b> | <b>56,299,032</b>  | <b>32,473,871</b> |



## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 28. Related Parties, Associated Companies and Shareholders (continued)

|                                     | Accounts Receivable |                   | Accounts Payable  |                   | Income            |                   | Costs And Expenses |                   |
|-------------------------------------|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|-------------------|
|                                     | 2012                | 2011              | 2012              | 2011              | 2012              | 2011              | 2012               | 2011              |
| <b>Associated companies</b>         |                     |                   |                   |                   |                   |                   |                    |                   |
| Telecom Italia Sparkle S.           | 5,920,280           | 5,453,767         | 2,439,458         | 1,538,775         | 449,862           | 822,189           | 661,895            | 835,927           |
| Tim Celular S.A.                    | 329,418             | –                 | –                 | –                 | 538,245           | –                 | –                  | –                 |
| Telecom Italia S.p.A.               | –                   | –                 | –                 | –                 | –                 | –                 | 122,360            | –                 |
| <b>Total associated companies</b>   | <b>6,249,698</b>    | <b>5,453,767</b>  | <b>2,439,458</b>  | <b>1,538,775</b>  | <b>988,107</b>    | <b>822,189</b>    | <b>784,255</b>     | <b>835,927</b>    |
| <b>Total foreign and associates</b> | <b>24,742,193</b>   | <b>28,460,077</b> | <b>85,661,136</b> | <b>42,851,522</b> | <b>20,634,593</b> | <b>12,423,809</b> | <b>57,083,287</b>  | <b>33,309,798</b> |

#### 29. Contingencies

##### Legal processes

At June 30 processes in progress and reported as probable contingencies are detailed below:

| Type of Action                   | 2012                 | 2011                |
|----------------------------------|----------------------|---------------------|
| Administrative investigation (1) | \$ 5,647,787         | \$ 206,103          |
| Tax processes (2)                | 3,199,119            | 289,627             |
| Labor                            | 2,099,635            | 1,234,169           |
| Petitions, complaints and claims | 1,715,731            | 1,629,201           |
| Ordinary civil (3)               | 1,256,430            | 600,414             |
| Unfair competence                | 804,884              | 800,000             |
| Executive                        | 746,858              | 746,858             |
| Direct compliance repair         | 617,844              | 151,702             |
| Administrative penalty           | 294,026              | 1,626               |
| Incentives and popular actions   | 170,010              | 562,380             |
| Probable contingencies (Note 17) | <u>\$ 16,552,324</u> | <u>\$ 6,222,080</u> |

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

- (1) Processes regarding administrative investigations upon probable non compliance with regulatory standards.
- (2) Processes with various municipalities concerning the appraisal computation of tax for public lighting.
- (3) Process due to the occupation of a real estate with infrastructure of Nortel and the former Capitel, which contract was assigned to Colombia Telecomunicaciones.

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 30. Commitments

##### *Material contracts*

Considering the materiality of the figures regarding contracting, we detail below the contracts in force and those pending execution at June 30, 2012 considering of major significance:

| <b>Contractor</b>                    | <b>Object of the Contract</b>  | <b>Termination Date</b> | <b>Contract Value (\$000)</b> |
|--------------------------------------|--|-------------------------|-------------------------------|
| <b>Eficacia S.A.</b>                 | Develop support work at the eastern regional comprised by Santander, Norte de Santander, Boyacá, Casanare, Arauca; at the western region comprised by Valle, Cauca, Risaralda, Nariño, Antioquia, Chocó, Caldas, Quindío and in the northern region comprised by Guajira, Magdalena, Bolívar, Atlántico, Córdoba, Cesar, San Andrés and Sucre, providing the contractor with the human resources necessary in the terms established in the contract.   | 30/09/2012              | 176,571,500                   |
| <b>Eficacia S.A.</b>                 | Permanently provide to the contractor's clients integral customer service, which include among others, sale performance of products and services, reception of request, claim and complaints and back office activities.   | 31/05/2013              | 22,268,990                    |
| <b>ATC Sitios de Colombia S.A.S.</b> | Lease of space at sites.   | 30/06/2023              | 133,505,060                   |
| <b>Icotec Colombia S.A.S.</b>        | The continued integral maintenance provided by the Company in favor of Colombia Telecomunicaciones SA ESP for activities associated with the external plant and customer's loop that comprise the joint activities necessary for the operation and development of the external plant such as: design, construction, customer installation, maintenance for the various types of networks, access, wireless access, transit, television, constructed in copper cable multiplier, optical or coaxial fiber, microwave and satellite and other activities detailed in the contract and the documents comprising it. | 31/12/2013              | 129,722,180                   |
| <b>ZTE Colombia SAS</b>              | Permanently provide the integral level 1 maintenance service on site in the telecommunications network of the contracting party comprised of the commutation network, broadband, data, energy and transmission, including among others (i) the predictive, preventive and corrective maintenance activities (ii) internal plant operation and development, (iii) work required on site to ensure index processes and provisioning network and services, (iv.) execution of possibilities and work orders, and (v) supply spare parts   | 31/07/2016              | 128,518,150                   |

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 30. Commitments (continued)

| Contractor   | Object of the Contract  | Termination Date | Contract Value (\$000) |
|--|---|------------------|------------------------|
| <b>Armando Pezzano Cia. Ltda.</b>                          | The continued integral maintenance for activities related with the external plant and customer loop that comprises the group of activities necessary to operate and develop the external plant, such as, design, construction, customer installation, maintenance for various types of network, access, wireless access, transit, television, copper cable multiplier, optical fiber or coaxial, microwave and satellite and other activities detailed in the contract and the documents comprising it  | 31/12/2013       | 41,597,900             |
| <b>FSCR Ingeniería Ltda.</b>                               | The continued integral maintenance for activities related with the external plant and customer loop that comprise the group of activities necessary to operate and develop the external plant, such as, design, construction, customer installation, maintenance for various types of network, access, wireless access, transit, television, copper cable multiplier, optical fiber or coaxial, microwave and satellite and other activities detailed in the contract and the documents comprising it.  | 31/12/2013       | 121,756,420            |
| <b>Actividades de Instalaciones y Servicios Cobra S.A.</b> | The purpose of this contract is the continued integral maintenance provided by the Company in favor of Colombia Telecomunicaciones SA ESP for activities associated with the external plant and customer's loop that comprises the joint activities necessary for the operation and development of the external plant such as: design, construction, customer installation, maintenance (for preventive and corrective purposes) for the various types of networks, access, wireless access, transit, television, copper cable multiplier, optical fiber or coaxial, microwave and satellite and other activities detailed in the contract and the documents comprising it (hereinafter the work and/or activities), in the terms and conditions established in the contract in exchange for the integral remuneration of the agreed in clause 9a.-, which is understood includes the integral remuneration of the collaborating company, which with full administrative and financial technical autonomy ensures the permanent availability of the activities which are the object of this contract. | 31/12/2013       | 72,892,496             |
| <b>Operación y Gestión Integral Opegin Ltda.</b>           | The continued integral maintenance provided by the Company in favor of Colombia Telecomunicaciones SA ESP for activities associated with the external plant and customer's loop that comprise the joint activities necessary for the operation and development of the external plant such as: design, construction, customer installation, maintenance for the various types of networks, access, wireless access, transit, television.   | 31/12/2013       | 60,160,041             |

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 30. Commitments (continued)

| Contractor   | Object of the Contract   | Termination Date | Contract Value (\$000) |
|--|--|------------------|------------------------|
| <b>Seguridad Atlas Ltda.</b>                                       | The Contractor is committed to the contracting party to render, with the frequency, in the place and amount indicated by the contracting party, private surveillance services for goods, infrastructure installations used by the contracting party.   | 31/08/2012       | 76,659,368             |
| <b>Centro Interactivo de CRM S.A.– Interactivo Contact Center.</b> | Provide multichannel attention service center –Call center.  | 31/12/2014       | 58,771,220             |
| <b>Oesia Network SL –Sucursal Colombia</b>                         | The Contractor is committed to supply to the Contracting party by its own means and with technical and directive autonomy and under the outsourcing service infrastructure of: (i) service table performance; (ii) computer center; (iii) network; (iv) work station; (v) support on site; (vi) mainframe and (vii) other IT services.   | 15/08/2012       | 27,977,168             |
| <b>Supla S.A.</b>  | Provide operating logistic services that includes store performance services, inventory performance, material handling and preparation, packing, dispatch, multimodal transportation, simple maquila, fulfillment, revert logistics, tracking orders, documental performance of completed and others related with the compliance of other operations.  | 31/03/2014       | 22,134,749             |
| <b>Dico Telecomunicaciones S.A.</b>                                | Service of support activities to the access network, such as audits of liquidation of collaborating companies, test table, subscriber's performance, provisioning, closing of activities and UK viabilities.   | 31/12/2012       | 21,376,251             |
| <b>Cables de energía y telecomunicaciones CENTELSA</b>             | Provide self-supported copper cable, filled and grey for internal use.   | 31/12/2013       | 63,305,938             |
| <b>Unión Fenosa Redes de telecomunicación</b>                      | Contract the acquisition of Irrevocable rights of use (IRU) of fiber optics for telecommunications, over four pairs of optical fiber in the section of Puerto Salgar–Bucaramanga, Villeta – Puerto Salgar, Barrancabermeja– Bucaramanga, Santa Marta Fundación, Fundación Bosconia, Bosconia Aguachica, Aguachica Ocaña, Ocaña–Cúcuta, Aguachica–San Alberto, San Alberto Bucaramanga, Medellín– Villeta, Villeta –Bogotá. | 31/12/2014       | 82,896,803             |
| <b>Cellistics Holdings S.L.</b>                                    | Provide terminals for the third quarter of 2012.   | 30/09/2012       | 23,480,446             |
| <b>Nokia Siemens Network Colombia S.A.</b>                         | SPRML Nokia service support  | 30/08/2014       | 16,548,157             |

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 30. Commitments (continued)

| Contractor                         | Object of the Contract  | Termination Date | Contract Value (\$000) |
|------------------------------------|---|------------------|------------------------|
| Ericsson de Colombia S.A.          | Provide operating and maintenance services of the mobile telephony base station and transmission nodes nationwide for the exploitation of mobile telephony services | 31/12/2015       | 42,353,389             |
| Huawei Technologies Colombia S.A.S | Provide operating and maintenance services of the mobile telephony base station and transmission nodes nationwide for the exploitation of mobile telephony services | 31/12/2015       | 19,760,103             |
| Internexa S.A. E.S.P.              | Rights to provide information transmission capacity   | 31/12/2015       | 23,245,164             |
| Research In Motion Limited R.I.M.  | Provide licenses and access costs for 2012  | 31/12/2012       | 43,099,039             |
| Publicis Groupe Media S.A.         | Integral agency media services comprised by the design and perform the communication media of the advertising campaign.   | 31/12/2015       | 19,760,103             |
| Tempo Express Ltda.                | Rights to provide information transmission capacity.  | 31/12/2015       | 23,245,164             |
| Research In Motion Limited R.I.M.  | Supply access licenses and costs for 2012   | 31/12/2012       | 43,099,039             |
| Publicis Groupe Media S.A.         | Integral media agency services that comprise the design and development of the communication media of the advertising campaigns.                                    | 31/12/2013       | 50,330,044             |
| Tempo Express Ltda.                | Provide billing distribution services and other post objects for subscribers in the Departments of Boyacá Cesar, Cordoba, Cundinamarca, Guajira and Magdalena.      | 31/12/2013       | 31,587,144             |
| Digitex Internacional Ltda.        | Provide multi-channel attention service center –Call center.  | 31/12/2014       | 30,720,039             |
| Atento Colombia S.A                | Provide multichannel attention service center –Call center.   | 31/12/2014       | 65,189,612             |

#### *Contracts for the Exploitation of Goods, Assets and Rights*

The agreement with the greatest incidence on the financial statements is the exploitation agreement. The payment of the compensation to the extinct Empresa Nacional de Telecomunicaciones and other Teleasociadas (currently, autonomous equity PARAPAT) is made through it for the use of goods, assets and rights which is the object of the exploitation contract. They were timely identified as part of the provision of services by Colombia Telecomunicaciones S.A. ESP., which recorded the service as non-operating expenses, in compliance with Resolution 517 of December 21, 2004, issued by the Contaduría General de la Nación. As of May 1 it accounts for the compensation in cost of sales and rendering of the service considering SSPD Resolution No. 33635 of December 28, 2005.

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 30. Commitments (continued)

Within the main obligations and commitments established in this contract, we highlight the following ones (Clause 14 of the exploitation contract):

- 4.1. To pay the compensation referred to in Amendment 2 to the Contract to Empresa Nacional de Telecomunicaciones and Telesociadas (or, in the future and, as required, to the autonomous equity (PARAPAT), or its assignees), as the case may be.
- 4.2. To use in a lucrative, professional and independent way the goods referred to in the contract.
- 4.3. The use of the goods which are the subject matter of the exploitation contract may be done directly or indirectly with the support of third parties, using any contract provided for or authorized by law.
- 4.4. Continue with the execution of the Biannual Plan of Empresa Nacional de Telecomunicaciones in force on the date of the contract's agreement, in the terms of Article 22 of Decree 1616 of 2003.
- 4.5. According to its nature and destination, to preserve in good maintenance condition and in an appropriate operation status the goods included in the contract object. The destruction or loss of goods for reasons beyond its control, should be reported to the Company that devoted them for service purposes before liquidation and except that a controversy arises on the fact or cause, will make that these goods are no longer considered to execute this contract, upon the prior signature of a minute.
- 4.6. Carry out the modifications and improvements required for the appropriate provision of the Telecommunication Services.
- 4.7. Assist with the inventory taking of the assets owned by Empresa Nacional de Telecomunicaciones and Telesociadas of which Colombia Telecomunicaciones S.A. E.S.P. is holder upon order of the law, in the terms and conditions of the agreements entered into for purposes of executing the Contract.
- 4.8. Identify the goods that Empresa Nacional de Telecomunicaciones and Telesociadas destined to render Telecommunications services and submit within the following twelve months after the signature of the agreement, a list of goods intended for and required to continue with the rendering of the service; however, the 12 months expired and it was necessary to establish a new term so that Colombia Telecomunicaciones S.A. E.S.P. could identify the goods, for which an amendment was made of the Exploitation Contract on December 1, 2004, agreeing on a new 12 month term counted as of the date of signing the amendment, Colombia Telecomunicaciones S.A. E.S.P. having complied with the obligation to identify the goods and rights related with rendering of the services with the term stipulated in the contract, i.e., as of December 1, 2005. At January 31, 2006, the liquidation of Empresa Nacional de Telecomunicaciones and four Telesociadas (Teleupar, Telebuenaventura, Teletuluá, Telesantarosa) was completed.
- 4.9. To maintain insured the goods which use and enjoyment receives by virtue of the law and the contract and which insurance corresponded to Empresa Nacional de Telecomunicaciones and to the Telesociadas, according to the nature of such goods.

## **Colombia Telecomunicaciones S.A. E.S.P.**

### **Notes to the Special Purpose Financial Statements (continued)**

#### **30. Commitments (continued)**

For this purpose, Colombia Telecomunicaciones S.A. E.S.P., should then make the necessary budgetary appropriations, as well as the related analysis to set up or maintain in force on its own account, during the contract's term all insurance that guarantee technically the protection of the goods against risks, which according to their nature, may affect the goods which use is the contract matter and in particular, the risks derived from the operation in charge of said Company. The responsibility for the payment of premiums, claim procedures and the payment of indemnities will be exclusively in charge of Colombia Telecomunicaciones S.A. E.S.P.

Minimum insurance, risks and eventual infra or supra insurance, as well as the deductibles that Colombia Telecomunicaciones S.A. E.S.P. should cover, will be established by the respective liquidators.

Colombia Telecomunicaciones S.A. E.S.P., may use the authorization granted by Article 66 of Law 780 of 2002 for the actions made during 2003, or of any other mechanism that, according to the law, allow to adequately meet the obligation of the assumed protection.

When it is reasonably possible to establish a direct relation between the value of the accrued premiums and determined goods, this value will be subtracted from the service corresponding to the company that devoted it to the service on June 12, 2003; otherwise, this value will affect determining the operating profit base.

Indemnities in progress and those received for future losses in accordance with the insurance contracts covering the risk of damage, should be dedicated to the replacement of the affected good, if possible. Claim procedures to obtain payment of the insurance will be the responsibility of Colombia Telecomunicaciones S.A. E.S.P., if the indemnity amount may not be dedicated to replace the affected good, will enter the equity of Empresa Nacional de Telecomunicaciones or of Telesociadas or PARAPAT, as the case might be.

The obligation provided for in this numeral will continue in the name of Colombia Telecomunicaciones S.A. E.S.P. once the related assets used for the service are transferred to PARAPAT.

The resources deriving from the loss of profit recognized in accordance with the coverage of insurance per the contract, included in the insurance in force, will be in favor of Colombia Telecomunicaciones S.A. E.S.P.

- 4.10. Administrate, coordinate and continue executing contracts in progress entered into with Empresa Nacional de Telecomunicaciones and to the Telesociadas, if there were processes related with such contracts; this obligation will be complied with in coordination with PARAPAT.
- 4.11 Transfer to Empresa Nacional de Telecomunicaciones and Telesociadas the resources invoiced and collected for the services rendered as of the validity date of the decrees that ordered their liquidation until the date of the contract's subscription, in the agreed terms.

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 30. Commitments (continued)

##### *Colombia Telecomunicaciones S.A E.S.P.'s Rights*

In what has not yet been provided for by the Law, per the contract, Colombia Telecomunicaciones S.A. E.S.P. acquired the following rights:

- 6.1. The exclusive use of the goods, assets and rights which is the object of the exploitation contract that Empresa Nacional de Telecomunicaciones and Teleasociadas dedicated to the rendering of telecommunication services before the decrees were enforced whereby their suppression, dissolution and liquidation were ordered, and required for such services.

The right conferred to Colombia Telecomunicaciones S.A. E.S.P. does not limit the capacity of this Company to expand the telecommunication services or to render additional services allowed by law, nor for goods received together with other own ones or of third parties, for the same purposes.

This right comprises the exclusive use and enjoyment of the goods of industrial and intellectual property required to render telecommunication services, especially of all those that fall within the distinctive signs that include or refer to "Telecom".

- 6.2. Receive from Empresa Nacional de Telecomunicaciones the resources that were dedicated to it and to those referred to in Article 22 of Decree 1616 of 2003.
- 6.3. Timely receive the payment for the services referred to in the exploitation contract and those agreed to in a separate document rendered to Empresa Nacional de Telecomunicaciones and each one of the Teleasociadas.
- 6.4. PARAPAT will transfer to Colombia Telecomunicaciones S.A. ESP, as a beneficiary, all assets, goods and rights which are the subject matter of the Exploitation Contract, once the last installment of the compensation has been paid, as established in Clause 14 of the Exploitation Contract, irrespective of the Pension Liability balance and other Liabilities existing at that date, against the account receivable recorded by Colombia Telecomunicaciones S.A. ESP in respect to the Companies in liquidation.
- 6.5. Participate with the Companies in liquidation in the preparation of the inventory of the goods which are the subject matter of the exploitation contract, as well as in the delivery that materializes the transfer of goods at the end of the Exploitation Contract.

Amendment No. 2 to the exploitation contract was signed on April 21, 2006, and establishes among other regulations, that the compensation will be equal to the aggregate of 17 annual installments and that each one of them will be paid in six equal bimonthly installments on the first working day of the second month of the corresponding bimonthly period. Likewise, the form in which the payment of the compensation will be adjusted is established and in the event the Company's service portfolio is expanded; as well as the distribution between the accounts corresponding to Empresa Nacional de Telecomunicaciones and Teleasociadas in the PARAPAT, the transfer of goods, assets and rights which are the subject matter of the exploitation contract, the term and addition of new goods, assets and rights.



## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 30. Commitments (continued)

On March 30, 2012, additional Clause No. 3 of the exploitation Contract was signed, which purpose is the Nation's assumption through Ministerio de Hacienda y Crédito Público (in 47.9665396%), and by Telefónica Móviles Colombia S.A. (in 52.0334604%) of the unexpired payment obligations that result from Clause 14 of the Exploitation Contract. Likewise, the Restructuring Agreement of the Compensation Installments of the obligations assumed in Amendment No. 3 of the Exploitation Contract to modify the payment amount and term of the Compensation Installments until 2028.

Considering the above, the scheme modification of the compensation of the exploitations contract, goods, assets and rights object of the contract that were stated in the contract, comprise all the goods object of the exploitation contract, which as mentioned above, will be transferred to Colombia Telecomunicaciones S.A. ESP once the last compensation quote is paid. According to additional clause No. 2 the compensation value remunerates the use, enjoyment and complete exploitation of all the goods object of the Exploitation Contract, without having to replace goods, assets or rights.

#### *Management Fee Contract*

The Company signed a contract with Telefónica Internacional S.A.U. to carry out processes intended for the improvement of the Company's integral performance, productivity and competitiveness, through consistent technical services and assistance. According to the terms and conditions of this contract, Telefónica Internacional S.A. in exchange will have the right to perceive a variable remuneration over the operational results before depreciation and taxes, thus depending on the compliance of the goal of operative results over income. The performance contract ended as a result of the Company's merging with Telefónica Móviles Colombia S.A. Amendment No. 1 of the Investment Agreement entered into on March 30, 2012 for the Shareholder's and Colombia Telecomunicaciones, which in Clause 15 establishes that the Performance Contract will end on the date the Additional Clause No. 1 begins to operate, which occurred on July sixth (6), 2012, date on which the merging was formalized by means of the Bogota's Chamber of Commerce mercantile register.

#### *Operating Lease IRU*

The submarine cable stage operations (between Miami –U.S.A., and Barranquilla – Colombia) began on January 28, 2008, owned by Telefónica Internacional Wholesale Service (hereinafter "TIWS"), and on which there is an agreement of "Undefeasible Right of Use" (hereinafter "Indefeasible Right of Use" or "IRU", per English acronym) signed with TIWS América S.A, TIWS España S.A. and TIWS Colombia S.A. This agreement complies with the conditions necessary to be treated as a service rendering contract, which is consistent with the understanding of TIWS and of other operators with similar agreements.

The Company's management considers the following items for its treatment:

1. The agreement complies with the conditions to be considered a service agreement based on accounting interpretations.
2. The value paid represents the compensation or lease value for the use of the capacity of "RED TIWS" – considering such network the amount of the submarine cables and the telecommunication inter ocean ring provided by TIWS – and not only the final stage that connects the Company.
3. The capacity purchased by the Company versus the total capacity of the identifiable asset results "more than insignificant" (+/-1.9%).

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 30. Commitments (continued)

4. The Company does not exercise control (direct or indirect) or any other type of restrictions over the capacity not purchased of the asset.
5. It is the Company's intention to use the capacity acquired for its operations.

#### *Granting of rights of use and other agreements – Stage I –*

At August 31, 2010, the following contracts were entered into with the ATC Sitios de Colombia S.A.S. (hereinafter "ATC") and which objectives were:

#### *a) Granting rights of use and other agreements.*

The contract's object includes: (i) Colombia Telecomunicaciones S.A. E.S.P., grants to ATC the rights of use of the 458 Sites included in the Annex to this contract and is committed to transfer its property, once Colombia Telecomunicaciones S.A. E.S.P. receives from PARAPAT the transfer of active goods and rights which are the object of the Exploitation Contract and (ii) grants under commodate or loan the use of the Areas for a 13 year term, extendable in the terms established in the Commodate Contract that the Parties enter into on this date.

#### *b) Lease contract for space in Towers.*

By means of this contract, ATC leases a space in the towers for the use of Colombia Telecomunicaciones S.A. E.S.P. and/or of the companies of the Grupo Telefónica or a third party in accordance with a current contract at the date of the contract. Colombia Telecomunicaciones S.A. E.S.P. should pay a monthly rent as any other third party operator, at market price; this contract will have an irrevocable initial term of 8 years, which will be automatically renewed for 5 years and thereafter for 2 additional successive years. The estimated value of this contract amounts to \$124,140,900.

#### *c) Commodate contract over land.*

By means of this contract, Colombia Telecomunicaciones S.A. E.S.P. grants the right of use or commodate of the areas (land) detailed in Annex A of this contract where the rights to use the towers were granted in the Master contract are located, without purchase option or obligation to retribute at the end of the contract's term. This obligates ATC to retribute the property. The term of this contract is 13 years as of signature of the contracts, initially extendable for two more years. Additionally, and in accordance with the contracts entered into above, the parties agreed to sign a pledge contract without tenancy over the assets in favor of ATC for \$54,210,000, which value will reduce annually by \$9,035 million as of December 31, 2010 and until December 31, 2023.

#### *Granting of rights of use and other agreements – Stage II –*

At June 28, 2011, the following contracts were entered into with ATC Sitios de Colombia S.A.S. (hereinafter "ATC") that were a) Granting of Rights of Use and Enjoyment and Other Agreements; b) Space Leasing Contract in Towers; and in the same general terms agreed to in 2010.

## **Colombia Telecomunicaciones S.A. E.S.P.**

### **Notes to the Special Purpose Financial Statements (continued)**

#### **30. Commitments (continued)**

##### *a) Granting of rights of use and enjoyment and other agreements.*

The object of the contract includes: (i) Colombia Telecomunicaciones S.A. E.S.P., grants to ATC the rights of use and enjoyment of the Sites stated in the Annex of this contract and is committed to transfer its property, once Colombia Telecomunicaciones S.A. E.S.P. receives from PARAPAT the transfer of active goods and rights that are the subject matter of the Exploitation Contract and (ii) grants under commodate or loan the use of areas for a term of 13 years, renewable in the terms established in the Commodate Contracts entered into by the parties on that same date.

##### *b) Space leasing contract in Towers.*

By means of this contract ATC gives under lease a space in towers for the use of Colombia Telecomunicaciones S.A. E.S.P. and/or Grupo Telefónica or any other third party in accordance with a current contract. Colombia Telecomunicaciones S.A. E.S.P. should pay a monthly rent as any other third party operator at market price; this contract has an initial minimum irrevocable term of 8 years, which will be automatically renewed for 5 years and thereafter for additional periods of 2 successive years.

##### *c) Commodate contract over land.*

By means of this contract, Colombia Telecomunicaciones S.A. E.S.P. grants the right of use or commodate of areas (land) described in Annex A of this contract where the towers sold under the Master agreement are located, without purchase option or obligation to reconstitute at the end of the contract's term, which obligates ATC to return the property. The term of this contract is as of the signature of the contract until December 31, 2023, initially renewable for two more years.

## Colombia Telecomunicaciones S.A. E.S.P.

### Notes to the Special Purpose Financial Statements (continued)

#### 31. Statements of Income of the absorbed company

#### Telefónica Móviles Colombia S.A. (today Colombia Telecomunicaciones S.A. ESP)

#### Special Purpose Statement of Income

We hereby submit only for information purposes and for the special purposes of the financial statements of Colombia Telecomunicaciones S.A. ESP at June 30, 2012 and 2011:

##### Period from January 1 to June 30, 2011

|  |                        |
|--|------------------------|
| Net Revenues   | \$1,012,304,174        |
| Cost of sales and of services rendered                         | <u>(303,381,629)</u>   |
| <b>Gross margin</b>  | <b>708,922,545</b>     |
| <b>Operating expenses:</b>                                     |                        |
| Administrative   | (214,145,845)          |
| Selling expenses   | (163,457,462)          |
| Provisions   | <u>(27,225,853)</u>    |
| <b>Operating result before depreciations and Amortizations</b> | <b>304,093,385</b>     |
| <b>Depreciation and amortization</b>                           |                        |
| Amortization of intangibles and deferred charges               | (172,831,508)          |
| Depreciation   | <u>(160,845,705)</u>   |
| Total depreciation and amortization                            | <b>(333,677,213)</b>   |
| <b>Operating income</b>  | <b>(29,583,828)</b>    |
| <b>Non-Operating income (expenses):</b>                        |                        |
| Financial expenses, net  | (56,582,179)           |
| Deferred monetary correction                                   | 6,332,199              |
| Other non-Operating Revenue (expenses) net                     | <u>(131,019)</u>       |
| Total non-operating expenses, net                              | <b>(50,380,999)</b>    |
| Loss before taxes  | <b>(79,964,827)</b>    |
| Income tax   | <u>(8,727,936)</u>     |
| <b>Net loss of the period of six months</b>                    | <b>\$ (88,692,763)</b> |