

FINANCIAL STATEMENTS

**Colombia Telecomunicaciones S.A. ESP**

Years ended December 31, 2014 and 2013  
with the Statutory Auditor's Report

# Colombia Telecomunicaciones S.A. ESP

## Financial Statements

Years ended December 31, 2014 and 2013

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To the Shareholders of  
Colombia Telecomunicaciones S.A. ESP

The financial statements of Colombia Telecomunicaciones S.A. ESP for the years ended December 31, 2014 and 2013 have been prepared in conformity with accounting principles generally accepted in Colombia. Ms. Luz Marina Sotelo of our office acted as independent accountant of such financial statements and her report thereon is dated February 18, 2015. Her audit examination was made in accordance with auditing standards generally accepted in Colombia.

We have reviewed the enclosed English language translation of the financial statements and the Independent Accountant's report of Mr. Luz Marina Sotelo thereon.

Very truly yours,

/s/ Ernst & Young Audit SAS

Bogotá, D.C., Colombia  
March 11, 2015

## Statutory Auditor's Report

To the General Shareholders Meeting of  
Colombia Telecomunicaciones S.A. ESP

I have audited the accompanying financial statements of Colombia Telecomunicaciones S.A. ESP, which comprise the balance sheets as at December 31, 2014 and 2013 and the related statements of operations, changes in equity, changes in financial position and cash flows for the years then ended, and the summary of significant accounting policies and other explanatory notes.

The Company's administration is responsible for the preparation and fair presentation of the financial statements, in accordance with accounting principles generally accepted in Colombia. This responsibility includes designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error; and selecting and applying appropriate accounting policies and making estimates that are reasonable in the circumstances.

My responsibility is to express an opinion on these financial statements based on my audits. I obtained the necessary information to comply with my functions and performed my examinations in accordance with auditing standards generally accepted in Colombia. These standards require that an audit is planned and performed to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatements in the financial statements. In making those risk assessments, the auditor considers the internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements. I believe that my audits provide a reasonable basis for my audit opinion.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Colombia Telecomunicaciones S.A. ESP as of December 31, 2014 and 2013, and the results of its operations, the changes in its financial position and the cash flows for the years then ended, in accordance with accounting principles generally accepted in Colombia, issued by the Colombian Government, consistently applied.

Further, based on the scope of my audits, I am not aware of situations indicating that the Company has not: 1) kept minute books, the shareholders' register and the accounting records in accordance with legal requirements and prescribed accounting principles; 2) carried out its operations in accordance with the by-laws and the decisions of the Shareholders' and Board of Directors' meetings, and the rules related with the integral social security system; 3) retained correspondence and the accounting vouchers; and, 4) adopted internal control measures for the maintenance and custody of the Company's assets and those of third parties held by it. Additionally, there is agreement between the accompanying financial statements and the accounting information included in the management report prepared by the Company's administration which includes representation by Management on the free circulation of invoices with endorsement issued by sellers or suppliers.

/s/ Luz Marina Sotelo Rueda  
Statutory Auditor  
Professional Card 9490-T  
Designed by Ernst & Young Audit S.A.S. TR-530

Bogotá D.C., Colombia  
February 18, 2015

## **Colombia Telecomunicaciones S.A. ESP**

### **Certification of the Legal Representative and Public Accountant**

February 18, 2015

To the Shareholders of  
Colombia Telecomunicaciones S.A. ESP

The undersigned Legal Representative and Public Accountant certify that the financial statements of Colombia Telecomunicaciones S.A. ESP (hereinafter, "the Company") at December 31, 2014 and 2013 have been taken from the accounting records, and 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 December 31, 2014 and 2013 exist and all transactions included in such financial statements have been performed during the years then ended.
2. All transactions performed by the Company during the years ended December 31, 2014 and 2013, 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 owed by the Company at December 31, 2014 and 2013.
4. Every item have been recognized at its appropriate value in accordance with accounting principles generally accepted in Colombia.
5. All economic factors affecting the Company has been correctly classified, described and disclosed in the financial statements.

/s/ Ariel Ricardo Pontón  
Legal Representative

/s/ Juan Carlos Restrepo Díaz  
Public Accountant  
Professional Card 61851-T

# Colombia Telecomunicaciones S.A. ESP

## Balance Sheet

	At December 31	
	2014	2013
	<i>(In thousands of Colombian pesos)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents <i>(Note 5)</i>	\$ 56,091,112	\$ 135,656,616
Investments <i>(Note 6)</i>	24,434,983	8,155,995
Accounts receivable, net <i>(Note 7)</i>	833,312,868	646,161,787
Inventories, net <i>(Note 8)</i>	107,634,847	79,559,332
Prepaid expenses <i>(Note 10)</i>	13,306,485	11,192,177
Total current assets	<u>1,034,780,295</u>	<u>880,725,907</u>
Non-current assets:		
Long-term investments <i>(Note 6)</i>	60,000	60,000
Long-term accounts receivable, net <i>(Note 7)</i>	1,138,649,831	1,012,501,525
Property, plant and equipment, net <i>(Note 11)</i>	3,295,776,311	3,103,865,254
Intangibles, net <i>(Note 9)</i>	808,325,881	659,408,745
Deferred charges, net <i>(Note 10)</i>	584,645,289	613,330,397
Prepaid expenses <i>(Note 10)</i>	4,892,379	3,284,212
Other assets	-	279,511
Valuation of assets <i>(Note 11)</i>	97,709,368	221,199,590
Total non-current assets	<u>5,930,059,059</u>	<u>5,613,929,234</u>
Total assets	<u>\$ 6,964,839,354</u>	<u>\$ 6,494,655,141</u>
<b>Liabilities</b>		
Current liabilities:		
Financial obligations <i>(Note 12)</i>	\$ 352,278,390	\$ 373,278,104
Suppliers and accounts payable <i>(Note 13)</i>	966,782,973	1,005,774,756
Taxes, levies and rates <i>(Note 14)</i>	147,774,617	147,291,091
Labor liabilities <i>(Note 15)</i>	25,552,941	23,716,158
Estimated liabilities and provisions <i>(Note 16)</i>	282,007,184	380,516,878
Deferred liabilities <i>(Note 17)</i>	31,878,143	41,156,552
Other liabilities <i>(Note 18)</i>	44,025,771	32,428,788
Total current liabilities	<u>1,850,300,019</u>	<u>2,004,162,327</u>
Non-current liabilities:		
Financial obligations <i>(Note 12)</i>	1,913,453,078	1,667,579,283
Suppliers and accounts payable <i>(Note 13)</i>	182,689,984	-
Estimated liabilities and provisions <i>(Note 16)</i>	18,663,864	8,413,335
Deferred liabilities <i>(Note 17)</i>	208,982,644	153,152,189
Other liabilities <i>(Note 18)</i>	22,984,415	85,026,493
Bonds and commercial papers <i>(Note 19)</i>	1,794,345,000	1,445,122,500
Total non-current liabilities	<u>4,141,118,985</u>	<u>3,359,293,800</u>
Total liabilities	<u>5,991,419,004</u>	<u>5,363,456,127</u>
Shareholders' equity <i>(Note 20)</i> <i>(See accompanying statement)</i>	<u>973,420,350</u>	<u>1,131,199,014</u>
Total liabilities and shareholders' equity	<u>6,964,839,354</u>	<u>6,494,655,141</u>
Debit memorandum accounts <i>(Note 21)</i>	<u>\$ 7,289,031,201</u>	<u>\$ 6,411,077,839</u>
Credit memorandum accounts <i>(Note 21)</i>	<u>\$ 10,031,334,248</u>	<u>\$ 11,218,203,283</u>

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

## Colombia Telecomunicaciones S.A. ESP

### Statements of Operations

	Years ended December 31,	
	2014	2013
	<i>(In thousands of Colombian pesos, Except for the net loss per share)</i>	
Operating revenues <i>(Note 22)</i>	\$ 4,639,999,263	\$ 4,200,775,123
Cost of sales and of services rendered <i>(Note 23)</i>	<b>(1,868,219,708)</b>	(1,688,289,633)
Gross income before PARAPAT Payment Obligations	<b>2,771,779,555</b>	2,512,485,490
PARAPAT Payment Obligations	<b>(292,452,107)</b>	(148,463,768)
Gross income after PARAPAT Payment Obligations	<b>2,479,327,448</b>	2,364,021,722
Operating expenses:		
Administrative <i>(Note 24)</i>	<b>(378,616,798)</b>	(366,757,125)
Selling <i>(Note 24)</i>	<b>(631,549,145)</b>	(641,767,584)
Provisions <i>(Note 7 and 8)</i>	<b>(79,789,516)</b>	(65,582,830)
Operating income before depreciation and amortization	<b>1,389,371,989</b>	1,289,914,183
Depreciation and amortization of:		
Property, plant and equipment <i>(Note 11)</i>	<b>(628,464,798)</b>	(644,552,498)
Intangibles <i>(Note 9)</i>	<b>(155,388,309)</b>	(287,969,288)
Deferred charges <i>(Note 10)</i>	<b>(269,915,248)</b>	(284,412,183)
Total depreciation and amortization	<b>(1,053,768,355)</b>	(1,216,933,969)
Operating income	<b>335,603,634</b>	72,980,214
Non-operating (expenses) income:		
Financial expenses, net <i>(Note 26)</i>	<b>(363,777,374)</b>	(332,829,648)
Other non-operating income, net <i>(Note 27)</i>	<b>5,645,173</b>	3,257,055
Total non-operating expenses, net	<b>(358,132,201)</b>	(329,572,593)
Loss before income tax	<b>(22,528,567)</b>	(256,592,379)
Income tax <i>(Note 25)</i>	<b>33,842,819</b>	(5,420,352)
Net income (loss) of the year	<b>\$ 11,314,252</b>	\$ (262,012,731)
Net Income (loss) per share	<b>7.78</b>	(180.09)

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



## Colombia Telecomunicaciones S.A. ESP

### Statements of Changes in Shareholders' Equity

	Subscribed and Paid-in Capital	Additional Paid- in Capital	Mandatory Reserve	Statutory Reserves	Equity Revaluation	Accumulated Losses	Net Income (Loss) of Year	Valuation Surplus	Total Equity
	<i>(In thousands of Colombian pesos)</i>								
<b>At December 31, 2012</b>	\$ 1,454,870,740	\$ 3,389,266,946	\$ 86,809,595	\$ 3,730,162	\$ 575,104,158	\$ (4,011,598,648)	\$ (280,568,105)	\$ 392,706,753	\$ 1,610,321,601
Movement of the year	–	–	–	–	(45,602,693)	(280,568,105)	280,568,105	(171,507,163)	(217,109,856)
Net loss of the year	–	–	–	–	–	–	(262,012,731)	–	(262,012,731)
<b>At December 31, 2013</b>	1,454,870,740	3,389,266,946	86,809,595	3,730,162	529,501,465	(4,292,166,753)	(262,012,731)	221,199,590	1,131,199,014
Transfers	–	–	(60,479,897)	–	–	60,479,897	–	–	–
Movement of the year	–	–	–	–	(45,602,694)	(262,012,731)	262,012,731	(123,490,222)	(169,092,916)
Net income of the year	–	–	–	–	–	–	11,314,252	–	11,314,252
<b>At December 31, 2014</b>	<b>\$ 1,454,870,740</b>	<b>\$ 3,389,266,946</b>	<b>\$ 26,329,698</b>	<b>\$ 3,730,162</b>	<b>\$ 483,898,771</b>	<b>\$ (4,493,699,587)</b>	<b>\$ 11,314,252</b>	<b>\$ 97,709,368</b>	<b>\$ 973,420,350</b>

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

## Colombia Telecomunicaciones S.A. ESP

### Statements of Changes in Financial Position

	Years ended December 31,	
	2014	2013
	<i>(In thousands of Colombian pesos)</i>	
<b>Financial resources were provided by (used in):</b>		
Net income (loss) of the year	\$ 11,314,252	\$ (262,012,731)
Items not affecting working capital:		
Depreciation of property, plant and equipment	628,464,798	644,552,498
Amortization of deferred charges	269,915,248	284,412,183
Amortization of intangibles	155,388,309	287,969,288
Other amortizations	21,593,956	965,225
Depreciation of goods given in commodatum	279,511	4,101,218
Net loss from property, plant and equipment written off	3,235,095	1,986,645
Loss from deferred charges and intangibles written off	488,460	875,218
Recovery of long term provision for doubtful accounts	(7,249,340)	-
Deferred liability monetary correction	(794,272)	(3,177,087)
Recognition of deferred taxes	(42,779,639)	-
Working capital provided by the year's operations	<u>1,039,856,378</u>	<u>959,672,457</u>
<b>Financial resources provided by (used in):</b>		
Increase (decrease) in long-term financial obligations	245,873,795	(37,770,682)
Gain on sale of property, plant and equipment	2,000,000	-
Increase of long-term accounts receivable	(118,898,966)	(31,133,720)
(Increase) decrease in prepaid expenses	(24,185,090)	752,365
Acquisition of property, plant and equipment	(825,610,950)	(625,494,725)
Increase of deferred charges and intangibles	(481,697,953)	(489,677,923)
Decrease of suppliers and accounts payable	182,689,984	-
Increase (decrease) of estimated liabilities and provisions	10,250,529	(66,630,767)
Decrease of taxes, levies and rates	-	(45,602,694)
Decrease of long-term deferred liabilities	(9,541,452)	(11,269,094)
(Decrease) increase of other long-term liabilities	(62,042,078)	1,511,342
Increase of long term bonds and securities	349,222,500	118,950,000
Increase (decrease) of working capital	<u>\$ 307,916,697</u>	<u>\$ (226,693,441)</u>
<b>Changes in working capital components:</b>		
Increase (decrease) in current assets:		
Cash and cash equivalents	\$ (79,565,504)	\$ (716,794)
Investments	16,278,988	(12,071,683)
Accounts receivable	187,151,081	3,464,959
Inventories	28,075,515	19,074,597
Prepaid expenses	2,114,308	(5,103,719)
	<u>154,054,388</u>	<u>4,647,360</u>

## Colombia Telecomunicaciones S.A. ESP

### Statements of Changes in Financial Position (continued)

	Years ended December 31,	
	2014	2013
	<i>(In thousands of Colombian pesos)</i>	
Decrease (increase) of current liabilities:		
Financial obligations	<b>20,999,714</b>	(314,234,989)
Suppliers and accounts payable	<b>38,991,783</b>	176,973,786
Taxes, levies and rates	<b>(483,526)</b>	(361,738)
Labor liabilities	<b>(1,836,782)</b>	(2,330,764)
Deferred liabilities	<b>9,278,409</b>	(7,596,262)
Estimated liabilities and provisions	<b>98,509,694</b>	(111,289,744)
Other liabilities	<b>(11,596,983)</b>	27,498,910
	<b>153,862,309</b>	(231,340,801)
Increase (decrease) of working capital	<b>\$ 307,916,697</b>	<b>\$ (226,693,441)</b>

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

# Colombia Telecomunicaciones S.A. ESP

## Statements of Cash Flows

	Years ended December 31,	
	2014	2013
	<i>(In thousands of Colombian pesos)</i>	
<b>Cash flows from operating activities:</b>		
Net income (loss) of the year	\$ 11,314,252	\$ (262,012,731)
Reconciliation between net income (loss) and net cash provided by operating activities:		
Depreciation of property, plant and equipment	628,464,798	644,552,498
Amortization of intangibles	155,388,309	287,969,288
Amortization of deferred charges	269,915,248	284,412,183
Amortization of deferred liability monetary correction	(794,272)	(3,177,087)
Other amortizations of other deferred liabilities	21,593,956	965,225
Provision for doubtful accounts	80,475,480	67,637,692
Depreciation of goods given in commodatum	279,511	4,101,218
Net loss from property, plant and equipment written off	3,235,095	1,986,645
Loss from deferred charges and intangible written off	488,460	875,218
Provision for the protection of inventories	2,817,600	294,539
Valuation of derivative instruments	318,995,055	16,206,331
Recovery of provision for doubtful accounts	(7,628,445)	-
Recovery of provision for inventories	(3,631,014)	-
Recognition of deferred tax	(42,779,639)	-
Net changes in operating assets and liabilities:		
Accounts receivable	(224,632,350)	(73,960,819)
Inventories	(27,262,101)	(19,369,137)
Prepaid expenses	(1,355,141)	5,856,084
Suppliers and accounts payable	(38,991,783)	(176,973,786)
Taxes, levies and rates	483,526	(45,240,955)
Labor liabilities	1,836,783	2,330,764
Estimated liabilities and provisions	(78,814,184)	150,991,180
Deferred liabilities	(21,847,468)	12,593,608
Other liabilities	11,596,983	(27,498,910)
Net cash provided by operating activities	<u>1,059,148,659</u>	<u>872,539,048</u>
<b>Cash flows from investing activities:</b>		
(Increase) decrease of investments	(16,278,988)	12,071,683
Proceeds from sale of property, plant and equipment	2,000,000	-
Increase of long-term accounts receivables	(2,448,797)	-
Increase of long term prepaid expenses	(24,944,257)	-
Acquisition of property, plant and equipment	(825,610,950)	(625,494,725)
Additions to deferred charges and intangible	(481,697,953)	(505,944,364)
Net cash used in investing activities	<u>(1,348,980,945)</u>	<u>(1,119,367,406)</u>
<b>Cash flows from financing activities:</b>		
Increase of financing obligations	76,340,741	244,600,222
Increase of long term estimated liabilities and provisions	10,250,529	-
Increase of long term suppliers and accounts payable	139,481,416	-
(Decrease) increase of other long-term liabilities	(15,805,904)	1,511,342
Net cash provided by financing activities	<u>210,266,782</u>	<u>246,111,564</u>
Net decrease (increase) in cash and cash equivalents	(79,565,504)	(716,794)
Cash and cash equivalents at beginning of year	135,656,616	136,373,410
Cash and cash equivalents at end of year	<u>\$ 56,091,112</u>	<u>\$ 135,656,616</u>

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

# **Colombia Telecomunicaciones S.A. ESP**

## **Notes to the Financial Statements**

At December 31, 2014 and 2013

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

### **1. Reporting Entity**

Colombia Telecomunicaciones S.A. ESP (hereinafter, "the Company") is a public utility 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, a stock company which majority capital is owned by private parties, is currently subject to the legal regime set forth in Law 1341 of 2009 and other applicable standards, thus being classified as a Public Utility Service Company (ESP, for its Spanish acronym).

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 domestic and international long-distance, mobile services, mobile telephony services in any part of the national and international territory, carriers, teleservices, telematic, added value, 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, content supply and/or generation services and applications, information services and any other activity, product or services qualified as of telecommunications and/or of information and communication technologies (TIC, for its Spanish acronym) such as resources, tools, equipment, IT programs, applications, networks and media, which allow the compilation, processing, storage, information transmission as voice, data, text, video and images, including its communications and information activities, including its complementary and supplementary activities within 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 perform the commercial activities which have been 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. ESP, after an auction process more than fifty percent plus one (50%+1) of the Company's shares. On May 2, 2006, the operation with Telefónica Internacional S.A.U. was formalized upon the subscription of shares, the issuance of the shares' certificate in favor of Telefónica Internacional S.A.U. and the entry in the Company's Shareholders' register.

From a legal viewpoint, as of the capitalization of Telefónica Internacional S.A.U, the Company, ceased being an official utility company (a decentralized national entity) and became a stock company which majority owned by a private party, although it is classified as a Public Utility Services Company, in concordance with Law 1341 of 2009 and other related standards.

### **Merger of the Company with Telefónica Móviles Colombia S.A.**

In order to strengthen the Company's shareholders equity, General Shareholders' Meetings of Colombia Telecomunicaciones S.A. ESP and Telefónica Móviles Colombia S.A., held on April 24, 2012, in compliance with the legal and statutory formalities, approved the merging and content of the Merging Commitment whereby Colombia Telecomunicaciones S.A. ESP absorbed Telefónica Móviles Colombia S.A.

# Colombia Telecomunicaciones S.A. ESP

## Notes to the Financial Statements (continued)

### 1. Reporting Entity (continued)

#### Merger of the Company with Telefónica Móviles Colombia S.A. (continued)

The merger by absorption of Telefónica Móviles Colombia S.A. by Colombia Telecomunicaciones S.A. ESP was formalized through Public Deed No. 1751 dated June 29, 2012, of the 69th Notary's office of the Public Notaries Circle of Bogota D.C. It was and registered under No. 01648010 on July 6, 2012, with the Commercial Register of the Chamber of Commerce of Bogota D.C.

Below are the main figures of the Balance Sheet and Income Statement of the absorbed entity:

	<u>At January 1'</u> <u>2012</u>
Total assets	\$ 4,216,314,292
Total liabilities	2,654,203,609
Net equity	1,562,110,683
Working capital	<u>(1,233,359,855)</u>

### 2. Operations

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

On August 13, 2003, Colombia Telecomunicaciones S.A. ESP and Empresa Nacional de Telecomunicaciones – TELECOM, in Liquidation, and the local telephone companies – Teleasociadas, in Liquidation, signed an Exploitation Contract of Goods, Assets and Rights (Contrato de explotación de Bienes, Activos y Derechos). This contract assumes the universal tenancy of all goods and assets related with the provision of telecommunication services and their commercial exploitation by Colombia Telecomunicaciones S.A. ESP, in exchange of an annual compensation.

The autonomous equity of Assets and Liabilities of Telecom (PARAPAT) in charge of Fiduagraria S.A. was created upon the liquidation of TELECOM and its Teleasociadas, manages the Exploitation Contract of the assets used by Colombia Telecomunicaciones S.A. ESP and, therefore, is the party receiving the consideration resulting from the Exploitation Contract.

Likewise, this autonomous equity transfers the resources to two trusts; the first one is the Autonomous Equity of Remnants (PAR, for its acronym in Spanish), in charge of a consortium comprised by Fiduagraria S.A. and Fidupopular S.A., for the management of assets not involved in the activity – real estate, vehicles and other goods that have not yet been sold, accounts receivable, legal processes and files management. The second is the Autonomous Equity of Pensions (PAP, for its Spanish acronym), managed by a consortium comprised by Fiduprevisora S.A. and Fiducolombia S.A.

The Exploitation Contract, under which the Company makes payments to PARAPAT for the use and enjoyment of the assets and rights subject to the Exploitation Contract, and which were identified as assets involved in the provision of services by Colombia Telecomunicaciones S.A. ESP. As of May 1, 2006, the Company records the PARAPAT Payment Obligations in cost of sales and service provision, taking into account the provisions of Resolution No. 33635 of the SSPD of December 28, 2005.

## **Colombia Telecomunicaciones S.A. ESP**

### **Notes to Financial Statements (continued)**

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

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

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

- a) Amendment number 1, of December 1, 2004, incorporated Telesantamarta in Liquidation to the Operation Agreement, and established a new term for the identification of the assets involved in the service provision continuity by Colombia Telecomunicaciones S.A. ESP.
- b) Amendment number 2, of April 21, 2006, whereby the payment method of the aforementioned consideration was modified, 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, which will be adjusted annually considering the variance of the Consumer Price Index (IPC, for its Spanish acronym) certified by the DANE for the immediately preceding calendar year to the accrual date, plus 4 percent points, all this calculated in combined form.
- c) Amendment No.3 of March 30, 2012, which object is the assumption by the Nation through the Ministry of Finance and Public Credit (by 47.9665396%), and Telefónica Móviles Colombia S.A. (by 52.0334604%) and of the payment obligations not yet due in charge of the Company, deriving from the application of Clause 14 of the Operation Agreement.

The rights granted by the Operation Agreement to Colombia Telecomunicaciones S.A. ESP, as well as the obligations which are not expressly assumed by virtue of Amendment No. 3, will remain as the Company's responsibility and therefore, the right of the Company regarding the use and enjoyment of the goods which is the purpose of the Operation Agreement is not amended.

- d) On March 30, 2012, a Restructuring Agreement of the Compensation Installments of the obligations assumed through Amendment No. 3 of the Exploitation Contract was also signed, whereby the payments set out in Clause 14 of the Exploitation Contract was amended. This Liquidation Restructuring Agreement contemplates the Compensation value from the second bimonthly period of 2012 to the termination of the Operation Agreement in 2028.

The PARAPAT Payment Obligations for 2014 corresponded to \$292,452,107 (2013 -\$148,463,768), which has been paid in the terms and conditions established in the Operation Agreement and in the Restructuring Agreement signed with PARAPAT. The PARAPAT Payment Obligations for 2015 was estimated at \$482,059,790.

##### **Sectorial Authorities**

The sectorial authorities are those with which the company has relationships at a regulatory, inspection and surveillance level, among others; i) Ministerio de Tecnologías de la Información y las Comunicaciones - (Colombian Ministry of Information Technologies and Communications, MinTIC, for its Spanish acronym); ii) Comisión de Regulación de Comunicaciones (Colombian Telecommunications Commission, CRC, for its Spanish acronym) iii) Agencia Nacional del Espectro - (Colombian National Spectrum Agency – ANE, for its Spanish acronym); and iv) Autoridad Nacional de Televisión - (National Television Authority – ANTV, for its Spanish acronym) and the SIC.

# Colombia Telecomunicaciones S.A. ESP

## Notes to Financial Statements (continued)

### 2. Operations (continued)

#### Information Technology and Communications Sector Regime

By means of Law 1341 of July 30, 2009, principles and concepts about the companies of Information and Organization of Information and Communications Technologies (TIC, for its Spanish acronym) are defined; the National Spectrum Agency (ANE) 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 the principles and concepts about the Company of the information and organization of such technologies, thus, producing a transformation in the telecommunications sector as a result of the evolution in technological and market trends, giving way to a wider sector that involves the use and appropriation of the ICTs in all the Company's aspects.

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 inscribed with the Register ICT, provided by Article 15 of the Law 1341. Likewise, this article maintains, for the telecommunication services, its utility condition, in charge of the State.

According to what is set forth in Article 11 of the stated Law, the use of the spectrum requires the previous express permission granted by the MinTIC. Likewise, pursuant to Article 13, the granting or renewal of the permit to use a segment of the radio-electric spectrum will give rise to the payment, in favor of the Fondo de Tecnologías de la Información y las Comunicaciones - (Information and Communications Technology Fund, FTIC, for its Spanish acronym) and in charge of the permit holder, of a consideration which amount was set by means of Resolution 290 of 2010, issued by the MinTIC.

Article 68 of Law 1341 establishes the transition regime for the companies established at the time the Law was issued, stating that it will respect their qualifying titles (concessions, licenses, permits, authorizations) up to the term of their duration and under the conditions established in their regime. Additionally, it establishes that such operators may accept the overall qualifying regime, which will allow them to renew the permits to use the spectrum just once; thus the permit renewal overall regime will subsequently result applicable.

Law 142 of 1994 will not be applicable to telecommunications and to the companies providing basic commuted public telephone services, local mobile telephone in the rural sector, and long distance services, in respect to these services, except with what is set forth in Article 4 on the essential character; Article 17 on the companies' legal nature, Article 24 on 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 telephone services and local mobile telephone in the rural sector will be respected as utility companies (ESP, for its Spanish acronym).

#### Qualifications to Supply Telecommunication Services

As of November 8, 2011, the Company is generally qualified to supply networks and telecommunication services. Regarding the rendering of Mobile Telephone Cellular services, a writ was presented on November 28, 2013, accepting the General Qualifications Regime under the terms set forth by Law 1341 of 2009 and Decree 2044 of 2013, with the amendment of the related ITC certificate, which was approved on December 17, 2013, according to an e-mail received from the MinTIC; date as of which the new general qualification regime is applied and the right to renew the permits is generated under the terms of its qualification title, permits and authorizations until March 28, 2014, which occurred with the issuance of Resolution 597 of 2014, which became final on March 31<sup>st</sup>, 2014.



## **Colombia Telecomunicaciones S.A. ESP**

### **Notes to Financial Statements (continued)**

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

##### **Qualifications to Supply Telecommunication Services (continued)**

Additionally, through this resolution, the permit for the use of the spectrum in bands 835.020 MHz to 844.980 MHz, 846.510 MHz to 848.970, 880.020 MHz to 889.980 MHz, 891.510 MHz to 893.970 MHz, 1870 MHz to 1877 MHz and 1950 MHz to 1957.5 MHz until March 28, 2024, was renewed.

As of the date of these Financial Statements, the Constitutional Court declared subject to conditions the article 4 of Law 422 of 1998 and the article 68 of Law 1341 of 2009 in relation with the reversal of assets under judgment C-555 of 2013, considering that the content of the reversal clauses agreed in the Concession Agreements entered into prior to these laws shall be honored, therefore giving full effect to Clause 33-Reversal. Nevertheless, the content of judgment C-555, does not in itself determine the kind of assets and period of time subject to the reversal, nor the possible economic impact of futures liabilities arising from this matter. With the termination of the concession agreements, the Company and the MinTIC agreed to extend the liquidation stage thereof until May, 2015. In respect to this reversal situation until the date of the Constitutional Court's pronouncement, the Company and the State had been acting under the contractual relationship, under the understanding that the reversal would only be applicable on the committed scarce resource, which is the radio spectrum, based on the issuance of two laws of the Republic that determine this situation (Law 422 of 1998 and Law 1341 of 2009).

The Company has a permit to render mobile services with a 15 MHz spectrum in the 1900 MHz band, granted in accordance with the conditions of the process established by Resolution 1157 of 2011. With this assignation the Company has a total of 55 MHz of spectrum to render mobile services distributed as follows: 30 MHz in the 1900 MHz band and 25 MHz in the 850 MHz band. In order to use the 15 MHz of the 1900 MHz band, the permit term granted in 2011 is of 10 years as of October 20, 2011.

Likewise, during the 4G bidding process the Company obtained a spectrum of 30 MHz of the band, from 1710 MHz to 1755 MHz, paired with 2110 MHz to 2.155 MHz. This resource was assigned through Resolution 2625 of 2013, for a term of ten years, confirmed through Resolution 4142 of October 25, 2013.

##### **Television Concession**

The Company has the concession contract No. 17, of January 2007, which object is the operation and exploitation of the satellite television service (DBS, for its Spanish acronym) or Direct Home Television (TDH, for its Spanish acronym), as well as the commercialization and installation of receiver equipment of signals originated from a spatial segment and of the collection of rights. The Agreement's execution term is 10 years.

##### **Biannual Plans**

The Company administrates the resources deriving from the Information and Communication Technologies Fund (FONTIC, for its Spanish acronym – Special Administrative Unit registered with the MinTic), 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 FONTIC sets the criteria for the development of these plans in accordance with the provisions of the CONPES 3171.

## **Colombia Telecomunicaciones S.A. ESP**

### **Notes to Financial Statements (continued)**

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

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

###### *Biannual Plan III*

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

The resources assigned to this Agreement amounted to \$109,322,092. The agreement's term is 24 months counted as of July 2010, which was the date when the engineering plan was approved. An extension until May of 2014 was approved in November of 2013. On April 30, 2014, the project is closed; however, to date some activities and outstanding payments from the trust continue.

The resources of the III Biannual Plan are managed through a Trust and are recorded as Intangibles in the trust rights account with a balance of \$25,665,220 (Note 9); the Trust balance at December 31, 2014, is \$25,682,712. The balancing entry of the trust right is found in the account "Other Liabilities" – deposits received from third parties (Note 18). The accounting balance of this project at December 31, 2014, amounts to \$23,126,768, where there is greater execution regarding the payments performed by the Trust.

According to the Fifth Numeral of the Liquidation Minute of the Second Biannual Plan Agreement, Colombia Telecomunicaciones S.A. ESP, following the instructions of the FONTIC, transferred the resources for the projects' balance and the yields generated until the deposit date, discounting the financial expenses resulting from the transfer of \$20,922,525. The income amortization in this respect ended at the year-end 2013.

##### **Fundación Telefónica Colombia**

In April 2007, Fundacion Telefónica Colombia was incorporated as a nonprofit entity governed by the +- private law under the Colombian laws regime. The Foundation follows the directives and philosophical statements that regulate Fundacion Telefonica Intemacional. The initial contribution to the Foundation by Colombia Telecomunicaciones S.A. ESP was \$30,000. With the merging by absorption by Telefónica Móviles Colombia S.A. the contributions amount to \$60,000 at the close of 2012. During 2014 and 2013, no contributions were made by the Company to the Foundation.

##### **Interconnection**

According to Law 1341 of 2009, network suppliers have the obligation and right of access and use of the telecommunication networks. The current interconnection regime is provided in Resolution 3101 of 2011 of the Communications Regulations Commission. The Company has signed interconnection contracts with other suppliers in order to enable the communication of its network 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 applicable.

## **Colombia Telecomunicaciones S.A. ESP**

### **Notes to Financial Statements (continued)**

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

##### **Interconnection (continued)**

By means of the Resolution of the Communications Regulation Commission (CRC, for its Spanish acronym) No. 3136 of 2011, Article 8 of Resolution 1763 of 2007 was amended, establishing that as of April 2012, a gradual reduction starts of the payment made between mobile telephone operators for the use of its networks.

The programmed reduction will gradually decrease the charges of \$98.10 per minute in 2011 to \$42.49 per minute in 2015, except for the case of interconnection with the dominant supplier of the outgoing voice service Movil Comcel S.A., regarding the asymmetric rules of access charges as of February 2013 based on the particular resolutions 4002 and 4050, of 2012. The amount of reductions of access charges in respect to that applicable value during 2012 shall be transferred to users through rates or through infrastructure expansion, in accordance with the provisions of Resolution 4001 of 2012 of the CRC, amended by Resolution 4190 of 2013.

By Resolution of Comisión de Regulaciones (CRC, for its Spanish acronym) No. 4660 of December 2014, Article 8 of Resolution 1763 of 2007 is amended, establishing the new rates of access charges for mobile calls, applicable from January 1st, 2015 establishing a new reduction path until 2017, as follows: 2015 - \$32.88, 2016 - \$19.01 and 2017 - \$10.99. Likewise, the new rates for SMS access charges for the same period are set as follows: 2015 - \$5.43, 2016 - \$3.18 and 2017- \$1.86.

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

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

Only for comparative purposes with 2014, certain 2013 figures were reclassified and are mentioned in the notes to the financial statements. For the Financial Statements of the years 2014 and 2013, no changes were made to the Company's accounting practices, which affected the year's final outcome.

##### **Basis of Presentation**

The enclosed financial statements reflect the financial position of Colombia Telecomunicaciones S.A. EPS and were prepared in accordance to the accounting principles generally accepted in Colombia as stated in the Regulatory Decree 2649 of 1993 and other legal standards and resolutions issued by the Superintendence of Corporations; these principles and accounting policies may differ in certain aspects from those established by other State control bodies, as well as the international Accounting Standards.

Described below are the accounting policies and principles adopted by the Company in accordance with the foregoing.

##### **Measurement Unit**

The currency used by the Company to record the transactions made in recognition of the economic facts, is the Colombian peso. For presentation purposes, the figures are shown in thousands of Colombian pesos, except as otherwise stated.

# Colombia Telecomunicaciones S.A. ESP

## Notes to Financial Statements (continued)

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

#### Inflation Adjustments

Non-monetary assets, non-monetary liabilities and equity (except for the valuation surplus and year results) and other non-monetary items were prospectively adjusted for inflation until 2006. These adjustments were made by using adjustment percentages (PAAG, for its Spanish acronym), determined based on the variation of the general consumer's price index for medium income, prepared by the National Administrative Statistics Department (DANE, for 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 end of 2006 is part of the historical balance of their respective accounts. The inflation adjustment of equity applied until December 31<sup>st</sup>, 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, amount and surrounding circumstances, knowing or not knowing it could significantly alter the economic decisions of information users.

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

#### Restricted Resources

The Company manages the resources received from the FONTIC and FONADE for the management of the III Biannual Plan intended for projects aimed to the expansion, replacement and maintenance of the current infrastructure operated by the Company in compliance with the social programs established by the National Government.

#### Cash and Cash Equivalents

They represent resources in cash and banks, and highly liquid short-term investments with a maturity within three months following their acquisition.

#### Financial Derivative instruments

In the normal course of business, the Company carries out its operations with derivative financial instruments with the purpose of reducing exposure to fluctuations of the interest rate and of the exchange rate of its rights and obligations with third parties.

Although the Colombian Accounting Standards for the industrial sector do not foresee a specific accounting treatment for this type of transactions, the Company values these operations at market value at year end and non-operating revenues and expense accounts are affected; this, with the purpose of maintaining results according to market prices, presenting reasonable figures and adjusted to the economic reality. The Company does not develop operations with financial hedging instruments with speculative purposes.

## **Colombia Telecomunicaciones S.A. ESP**

### **Notes to Financial Statements (continued)**

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

##### **Financial Derivative instruments (continued)**

The Company covers all exchange rate risks as corporate policy; consequently, at the close of December 31, 2014, the valuation of financial hedges corresponded to the Non Delivery Forward (NDF, for its English acronym) and Cross Currency Interest Rate Swap (CCIRS, for its English acronym) operations to cover financial liabilities and commercial accounts in USD and EUR; such valuation derives from two components: i) the interest rate component defined as the financial expense associated to the hedge, and, ii) the exchange rate component defined as the valuation generated by the difference between the exchange rate hedge and the exchange rate at the end of the month multiplied by the nominal value of the hedge. These two values are recorded separately in the Income Statement as a financial expense and an income or expense from exchange rate fluctuations, respectively. Likewise, the difference between amounts paid and income received under hedge operations are recognized as debt service results.

The Company classifies its components of interest and exchange difference, which are recorded in the headings of financial income (expenses) and income (expenses) for exchange difference, respectively. On its part, the component of other interest rate items of its derivative contracts is recorded in memorandum accounts.

##### **Short-Term and Permanent Investments**

In accordance to the current accounting provisions, investments are classified and accounted 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. On the other hand, investments that represent the amount invested in local or foreign currency, in securities which profitability is determined based on the participation in the profits of the issuing entity or autonomous equity, are classified as variable yield equity investments.
- b) Investments of variable rate liquidity management correspond to investments of collective portfolios at sight of Investment Funds and investment savings accounts which are reflected at their market value and are valued by means of the accrual of yields.
- c) Investments which the Company intends to maintain until their expiration or maturity date or, at least, during a three-year period; when their term exceeds one year or have no maturity date, are classified as long-term investments. These investments are accounted and valued prospectively.
- d) Investments represented in securities easily disposable regarding which the Company has the purpose to sell to a third party other than the business group within a term not exceeding one year 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 debit or credit to the Income Statement, as the case might be.

# Colombia Telecomunicaciones S.A. ESP

## Notes to Financial Statements (continued)

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

#### Translation of Transactions and Foreign Currency Balances

Foreign currency transactions are entered according to legal regulations in force and are recorded at the applicable exchange rates in the date they occur. Balances denominated in foreign currency are reflected in Colombian pesos at the representative market exchange rates of \$2,392.46 and \$1,926.83, mainly in USD per USD \$1 at December 31, 2014 and 2013, respectively. In regard to accounts receivable, the exchange rate fluctuations are charged to the income statement. In regard to accounts payable, only exchange differences which are not imputable to the costs of assets' acquisition are charged to the income statement.

#### Accounts Receivable

Accounts receivable are recorded at cost. The provision for doubtful accounts, including late-payment interests, financing and interests is reviewed and updated at each year's close based on the risk analysis, the aging of balances and the collectability assessments made by Management of the individual accounts and by each category. Periodically, amounts which are considered unrecoverable are reviewed and written off. The Company determines the provision for doubtful accounts receivable based on the risk of recoverability of each type of account receivable as follows:

- Residential and business accounts receivable with a maturity greater than 105 days are 100% provisioned.
- A provision of 100% is applied to accounts receivable from companies with a maturity of more than 120 days; entities having a payment agreement signed are excluded; if they fail to pay one installment, irrespective of the agreement's duration, the accounts receivable balance is 100% accrued.
- For the financing of sales to clients, accounts receivable have a provision of 100% thereof.
- Accounts receivable from commercialization channels: i) Retail and recharge commercial agents, card distributors and mixed channel with a maturity exceeding 90 days - 100%; ii) Chain stores with a maturity exceeding 150 days - 100%.
- Domestic interconnection accounts receivable: i) A provision of 100% is applied for interconnection minutes with domestic operators that have accounts receivable more than 60 days past due; ii) an average indicator is determined individually for the fixed-mobile and long distance traffic uncollected during the last 6 months, the resulting percent will be applied to the months current invoicing and the amount obtained will be included in the provision.
- International interconnection accounts receivable: accounts receivable balances with a reconciliation minute signed by the parties and with a maturity exceeding 180 days will be completely (100%) provisioned.
- Roaming accounts receivable are individually analyzed by operator in order to quantify the risk and if necessary it will be included in the calculation of the period's provision.
- Official Accounts Receivable: i) mobile business will be completely (100%) provisioned for accounts receivable which maturity is greater than 6 months; ii) for the fixed business, accounts receivable with maturity greater than 24 months will be completely (100%) provisioned.
- Accounts receivable related with other debtors will be completely (100%) provisioned for accounts receivable with a maturity greater than 90 days.
- Equipment sale: the IT workstation (PDTI, for its Spanish acronym) for accounts greater than 90 days provisioned, including quotes which are pending to be billed will be completely (100%) provisioned.

# Colombia Telecomunicaciones S.A. ESP

## Notes to Financial Statements (continued)

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

#### Inventories

The Company records inventories at cost, which include the goods acquired to render telecommunication services and the commercialization of equipment (PCs, terminals, telephones) during the normal course of the business, which are valued at the average cost or market value, whichever is lower. Likewise, the effect of variables of obsolete technology and turnover levels are recognized as the provision for inventory protection.

#### Intangibles

Intangibles at December 31 mainly include:

1. Concessions - Qualifying Titles
  - a. Fixed line telephone services, long distance service, value add services and carrier

Corresponds to the contribution of the Nation – Ministry of Finance and Public Credit represented by the qualification it grants to the Company to participate in the telecommunications business in accordance with Decree 1616 of 2003, including the contribution to licenses, permits, concessions and any other qualifying title for the provision of the telecommunication services that Empresa Nacional de Telecomunicaciones had on the date Colombia Telecomunicaciones S.A. ESP was created.

To recognize the contribution of the intangible asset to the generation of income, it has been systematically amortized by the straight-line method from June 2008, inception date, and during the determination of its useful life, which is based on considering the lower between the estimated time of its exploitation and the duration of its legal or contractual coverage.

As of November 8, 2011, the Company, opted for the General Qualification Regime provided by Article 10 of Law 1341 of 2009, modifying its condition in the TIC register, with which the Company is enabled to render all types of telecommunication services, without any restriction, except for the use of the spectrum which is subject to the permits regime.

- b. Mobile telephone services

Concession rights to provide the mobile telephone services 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, they 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.

The useful life used until January 1997 of the initial rights was a 9-year and 9-month period, from January 31st of 1997, the Company obtained a 10-year extension to its original grant. The previous situation resulted in: from February 1st of 1997, the net balance of the initial concession rights to January 31st of 1997 and the cost of the extension granted were amortized over a 17-year and 2-month period.

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

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

##### Intangibles (continued)

With the acceptance of general authorization regime and, the consequent termination of the cellular mobile telephone concession agreements, aforementioned the MinTic issued Resolution 597 of 2014, whereby the permission of the use of spectrum in the bands of 850 MHz and 1900 MHz was renewed. The value of the license awarded was set at \$286,609,760 and a periodic value corresponding to 0.7% of the total gross income for networks provision and services provided over the mobile network, thus making cash payment of \$150,000,000 and established payments in kind of \$136,609,760.

#### 2. Rights

##### a. Use of the Radio-electric Spectrum - Mobile Telephone Services

During 2011 and with the approval of Resolution 002105 of September 15, 2011, the MinTic, 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, (currently, Colombia Telecomunicaciones S.A. ESP), and for a period of 10 years as of October 2011. The value of the concession amounted to \$95,543,000.

The value of the assigned spectrum will be paid as follows: i) 50% in cash, six-months after the, assignation at the market representative exchange rate on the date of assignation and ii) the other 50% upon the compliance with the obligation that consists of: a) installation and operation of mobile network coverage in the country as defined in Resolution No 001157 of 2001, issued by the MinTic; b) the Internet connection and services rendered to the educational institutions also defined in the annexes of the above mentioned resolution.

As part of the 4G-LTE technology entry to the country in 2013, the Company obtained 30 MHz of spectrum in the band from 1710 MHz to 1755 MHz paired with 2110 MHz at 2.155 MHz, a resource that was assigned by means of MinTic Resolution 2625 of 2013 confirmed through Resolution 4142 of October 25, 2013. The permit has a 10 year life-term and the concession value, including the obligations to do, amount to \$268,997,210.

##### b. Infrastructure Use

It records the participation of rights of use for the interconnection 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 the rights of use purchased for the use of the physical infrastructure with the company Azteca Comunicaciones Colombia SAS for \$8,464,821 by the Straight Line method, and with the company Gas Natural S.A. - Fenosa, on the North Ring, for \$31,422,348 and amortized as well, through the Straight Line method, for 20 years.



# Colombia Telecomunicaciones S.A. ESP

## Notes to Financial Statements (continued)

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

#### Intangibles (continued)

##### c. Acquired Goodwill

The Goodwill acquired is recorded as an intangible within the Company's assets and according to the Joint Circular No. 100-000006 of 2005 the Superintendence of Corporations and the External Circular No. 011 of 2005, of the Superintendence of Securities (currently Superintendence of Finance), acquired goodwill can be amortized within a maximum 20- year term. The goodwill useful life ended in March 2014.

##### d. Licenses

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

#### Property, Plant and Equipment, Net of Depreciation

Property, plant and equipment are recorded at cost and include; (i) all import tariffs as well as any tax levied over the acquisition of goods, (ii) and all costs directly attributable to the location of the asset in the conditions necessary to operate foreseen by the Company, until it is in condition of use. Depreciation is computed by using the straight-line method based on the useful life of assets on 100% of the acquisition cost. The gain or loss on the sale or retirement of property, plant and equipment is recognized in the statement of income of the transaction year. Normal disbursements for maintenance and repairs are charged to expense, and those significant ones which improve efficiency or extend the useful life are capitalized.

Annual depreciation rates are:

	<u>Years</u>	<u>%</u>
Construction and buildings (1)	20 – 40	5 – 3
Telecommunications network (2)	10 – 20	10 – 5
Telecommunications equipment (3)	3 – 15	33 – 7
Machinery and equipment	10	10
Furniture and fixtures and office equipment	10	10
Transportation and lifting equipment	5	20
Computer equipment	5	20

(1) Includes, among others, civil infrastructure works of telecommunication towers, cabins and buildings associated to technical, administrative and sales facilities

(2) Includes network infrastructure associated pair cables and fiber optic cable as well as the necessary elements for connection as pipes, ductwork, boxes and distribution cabinets.

(3) Includes among other, network nodes, 3G and 4G mobile access radio equipment, commutation centers, operation management centers, transmission equipment and microwave. It also includes the equipment associates to customer service to the basic line, DTH television and broadband.

# Colombia Telecomunicaciones S.A. ESP

## Notes to Financial Statements (continued)

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

#### Deferred Charges

Deferred charges mainly include:

##### *Prepaid expenses*

Prepaid expenses are represented by insurance policies, rentals, training licenses and software maintenance, which are amortized during the contract's term and the prepaid right for the use of the Radio-electric spectrum that allow rendering telecommunication services that use Point to Point and multi point distribution systems to access wireless Broadband by each service area, either municipal department or national as set-forth in Decree 1972 of July 2003.

##### *Deferred charges*

Deferred charges are mainly represented in:

- a. Infrastructure projects to render services.
- b. Projects, SAP/ERP implementation and billing systems

Include costs incurred in 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.

- c. Leasehold improvements

These are enlargements 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 stage 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.

- d. Equity tax

In 2011 the Company opted for the alternative treatment to account as deferred charges the portion pending payment of equity tax and surtax to be amortized during the payment period from 2011 to 2014.

- e. Software

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

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

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

##### Deferred Charges

f. Financial commissions

Financial commissions paid for the financial obligations are amortized by the straight-line method during the term of the obligation.

##### Other Assets

###### *Movable goods in Commodatum*

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

##### Asset Appraisals

Assets appraisals that are part of equity include the excess of value of technical appraisals of property, plant and equipment over the net respective costs. The Company made the last appraisal on September 28 2012, which was prepared by ONASI Ltda., duly registered in 1998 under code 214 of the Real Estate Entity of Bogotá in compliance with Decree 1420 of 1998 and according to the criteria established in External Circular 012 of July 1997 of the Superintendence of Corporations, which determines the minimum general regulations for the preparation of technical appraisals. We used the cost replacement methodology, which is a method approved by the Company's experts who stated that this methodology is consistent with practices used worldwide.

At the end of each period, depreciation is applied to such value based on the probable remaining useful life corresponding to each asset included in the technical appraisal; in addition, this value decreases upon the effect of write-offs due to damages, obsolescence and remaining factors related with the assets operation.

##### Financial Obligations

These are obligations entered into by the Company with credit institutions or other financial entities of the country or abroad, also including bank overdrafts.

Financial obligations are presented as non-current liabilities when their maturity term is 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 obligations are recorded in the costs and expenses payable subaccount of the financial expenses. 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 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.

# Colombia Telecomunicaciones S.A. ESP

## Notes to Financial Statements (continued)

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

#### Income Tax

The provision for the income tax is calculated at the official rate of 34% in 2014 and 2013 (this rate includes both income tax of 25% and the tax for equity CREE of 9%), by the accrual method, on the higher between the presumptive income or the net taxable income.

The effect of the temporary differences involving the payment of a lower or higher income tax in the current year is recorded as a deferred tax credit or debit, respectively, at the tax rates in effect when the differences are reversed, 39% in 2015, 40% in 2016, 42% in 2017, 43% in 2018, and 34% from 2019, provided that there is a reasonable expectation that such differences will be reversed in the future.

#### 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 bonds given to employees. During the period the Company made regular contributions to the severance fund and integral social security; health care, professional risks and pensions to the respective funds or to Colpensiones which fully assumes these obligations.

#### Recognition of Revenues

##### 1. *Operating Revenues- Fixed Operation*

Operating revenues mainly derive from the rendering of local telephone services, broadband, domestic and international long distance, data transmission services, satellite television, sales of telecommunications equipment, rental of voice data and other equipment, subventions and other income, such as, IT workstation (PDTI), key in hand projects, IT security services, housing and hosting, hubbing, income from telephone books, reconnection and added value. Products and services may be sold separately or in jointly commercial packages. Operating revenues are recognized when the right thereto arises, whether with the rendering of the service or by estimating the services rendered and not billed.

The estimation of revenues is made based on the recurrent preliminary information of billers and the commercial performance of each month, which includes high, low, rates in force and other verifiable variables; for these estimates the cut-off of each billing cycle by clients is considered. At the end of each month the estimated values regarding invoices and in case there are differences, the estimation basis is adjusted. In the remaining cases, revenue is recognized when incurred and when the certain, probable and quantifiable right of demanding payment arises.

##### 2. *Operating Revenues - Mobile Operation*

Operating revenues mainly derive from the rendering of the following telecommunication services: air traffic, basic charges, Roaming, connectivity, added value services (text messages, data, and contents, among others), interconnection, rental of equipment and carriers, sales of equipment and others, such as commercial support, billing services and collection and expired charges.

# Colombia Telecomunicaciones S.A. ESP

## Notes to Financial Statements (continued)

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

#### Recognition of Revenues (continued)

Products and services may be sold separately or jointly in commercial packages. Revenue 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. Revenues are recognized as services are rendered, either when the service is rendered and/or the good is transferred or through the estimate of services rendered and not billed.

Unbilled revenues for the use of time on air as a result of the services rendered as of the billing date cycle at the end of each month are computed based on the rating of the line and are recorded affecting revenues. These estimates are reversed as the actual consumptions are invoiced.

In the prepayment case, the amount related with the traffic paid pending consumption generates a deferred income and as the client uses the service, which is recognized in the statement of income. Incomes 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. Revenue from roaming is recognized in accordance with the traffic and is 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.

#### Revenues from State Subventions

Executions upon the subvention granted by the National Government are recorded as intangibles in the account rights in trusts and its balancing entry in other liabilities as deposits received from third parties, the revenue is fully recognized at the execution time (high) of the asset associated with the subvention, without it being deferred in time.

#### Revenues and Costs from Access Charges

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

#### Costs of Sales and of Services Rendered

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

- a. The PARAPAT Payment Obligations for the value of the fixed installment defined in the Operation Contract signed with PARAPAT.
- b. Compensations to regulatory entities.
- c. Access charges for interconnection and use of networks.
- d. Costs of mobile equipment, terminals and accessories.
- e. Rentals and utilities

# **Colombia Telecomunicaciones S.A. ESP**

## **Notes to Financial Statements (continued)**

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

#### **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. Memorandum accounts also include accounts for the control of assets, liabilities and equity, management information or control of future financial positions. Furthermore, tax memorandum accounts are used to record differences between the accounting data and data for tax purposes.

#### **Net Income (Loss) per Share**

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

#### **Contingencies**

On the date of issuing the financial statements, conditions exist that could result in losses for the Company, but which will only be known if specific situations arise in the future. Management and legal counsel evaluate these situations with regard to their nature, the likelihood that they will materialize, and the amounts involved, to determine changes to the amounts to be covered by a provision and/or disclosed.

Contingencies of losses estimated as eventual and remote are recognized in memorandum accounts.

#### **Statements of Cash Flows**

The statements of cash flows were prepared using the indirect method, which includes the reconciliation of the net income (loss) of the year with the net cash provided by operating activities. Cash and banks, savings deposits and all highly liquid investments maturing in less than three months have been considered as cash and cash equivalents.

#### **Use of Estimates**

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

#### **New Accounting Pronouncements - Convergence to International Financial Reporting Standards**

According to Law 1314 of 2009 and the Regulatory Decrees 2784 of 2012, 3023 and 3024 of 2013, the Company is required to initiate the convergence process of the accounting principles generally accepted in Colombia to International Financial Reporting Standards ("IFRS") as issued by the IASB (International Accounting Standards Board) until December 31, 2012.

# Colombia Telecomunicaciones S.A. ESP

## Notes to Financial Statements (continued)

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

#### New Accounting Pronouncements - Convergence to International Financial Reporting Standards (continued)

Likewise, according to the Regulatory Framework implemented in Colombia, there could be exceptions to the full implementation of the IFRS, which would impact the explicit and unreserved statement about its applicability.

The Public Accounting Technical Council classified the companies in three groups to carry out this transition. Based on the above, the Company belongs to Group 1, which mandatory transition period began on January 1, 2014 and the issuance of the first comparative financial statements under IFRS will be on December 31, 2015.

Regarding the convergence process, the Company has established and developed an implementation plan which enables complying with established terms, that included the presentation of the Opening Statement of the Financial Position in June of 2014 to the Superintendence of Corporations, in compliance with the External Circular No. 115-4 of April, 2014. The Company complied with such requirement on the date set.

Article 165 of the Law 1607 of December 2012 stipulated that only for tax purposes, remissions contained in tax accounting standards rules remain valid during the four (4) years following the effective date of the IFRS, so that during such period the tax impacts may be measured and propose the adoption of the respective legislative regulations. Consequently, during that time, the tax bases of items to be included in the tax returns will continue unchanged.

Also, the requirements of accounting treatments for the recognition of special tax situations will expire as of the implementation date of the new accounting regulatory framework.

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

The following is a detail of the assets and liabilities maintained in foreign currency at December 31:

Class	In Dollars		In Colombian Pesos	
	2014	2013	2014	2013
Assets:				
Cash and cash equivalents	\$ 6,134,088	\$ 4,273,207	\$ 12,578,411	\$ 8,233,744
Foreign debtors	11,021,684	26,336,876	26,368,938	50,746,683
Shareholders, related parties and associated companies	29,638,103	19,624,238	70,907,977	37,812,571
Total assets	46,793,875	50,234,321	109,855,326	96,792,998
Liabilities:				
Financial obligations	317,589,755	287,890,838	759,820,785	554,716,704
Suppliers and accounts payable	167,058,544	202,038,690	399,680,884	389,294,209
Shareholders, related parties and associated companies	33,519,228	39,677,060	80,193,413	76,450,950
Estimated liabilities and provisions	19,947,739	28,033,171	47,724,167	54,015,150
Bonds and commercial papers	750,000,000	750,000,000	1,794,345,000	1,445,122,500
Total liabilities	1,288,115,266	1,307,639,759	3,081,764,249	2,519,599,513
Liability position, net	\$ (1,241,321,391)	\$ (1,257,405,438)	\$ (2,971,908,923)	\$ (2,422,806,515)

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 5. Cash and Cash Equivalents

The cash and cash equivalents balance at December 31 were comprised of:

	<b>2014</b>	<b>2013</b>
Banks in local currency	\$ 50,631,045	\$ 125,142,575
Cash (includes US\$ 20,527 (2013 – US\$ 25,296))	2,676,152	2,209,568
Banks in foreign currency	2,664,151	8,185,003
Special funds	119,764	119,470
	<b>\$ 56,091,112</b>	<b>\$ 135,656,616</b>

#### 6. Investments

The balance of short-term and long-term investments at December 31 was comprised of:

	<b>2014</b>	<b>2013</b>
<b>Short-term:</b>		
Investment funds (1)	\$ 24,434,983	\$ 8,155,995
<b>Long-term:</b>		
Non-controlled equity investments (2)	60,000	60,000
	<b>\$ 24,494,983</b>	<b>\$ 8,215,995</b>

(1) Corresponds to funds of collective accounts receivable which rates range between 2.47% y 3.99% and to a time deposit of US\$ 5,000,000, at a rate of 6.65%, equivalent to the issue date.

(2) Includes the contribution amount provided by the Company to Fundación Telefónica.

All investments made during 2014 and 2013 comply with the obligations acquired by the Company from bondholders and are included in the list of permitted investments contained in the bond issue prospect and the contract entered into between Colombia Telecomunicaciones S.A. ESP and the Bank of New York Mellon (*Note 19*).

#### 7. Accounts Receivable, Net

The balance of accounts receivable at December 31 is comprised of the following:

	<b>2014</b>	<b>2013</b>
<b>Short-term:</b>		
Telecommunication services	\$ 960,078,417	\$ 873,845,434
Commercial brokers and distribution channels	138,009,562	135,925,345
Accounts receivable from domestic operators	107,483,422	97,975,470
Tax advances or balances in favor	174,819,699	97,578,056
Other debtors (1)	98,500,755	11,939,496
Foreign accounts receivable (2)	26,368,938	50,746,683
Shareholders, related parties and associated companies ( <i>Note 28</i> )	62,011,230	57,463,305
Portfolio of subsidies and contributions (3)	9,945,035	14,694,308
Deposits and advances delivered to third parties (6)	2,361,442	15,221,769
Provision for doubtful accounts (4)	(746,265,632)	(709,228,079)
	<b>833,312,868</b>	<b>646,161,787</b>



## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

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

	2014	2013
<b>Long-term:</b>		
Accounts receivable – PARAPAT (5)	903,175,104	903,175,104
Accounts receivable with domestic operators	134,610,499	134,610,499
Other debtors (1)	144,706,298	61,083,147
Portfolio of subsidies and contributions (3)	45,467,425	40,485,869
Shareholders, related parties and associated companies (Note 28)	23,490,019	–
Deposits - judicial proceedings (6)	27,122,636	13,581,305
Accounts receivable from official entities	15,622,149	15,622,149
Accounts receivable for IRU contracts and payment agreements	–	1,425,440
Provision for doubtful accounts (4)	(155,544,299)	(157,481,988)
	<b>1,138,649,831</b>	<b>1,012,501,525</b>
	<b>\$ 1,971,962,699</b>	<b>\$ 1,658,663,312</b>

(1) The following is a detail of other debtors at December 31:

<b>Short-term</b>		
Other debtors – Valuation of hedging instruments (a) (Note 12)	\$ 75,442,124	\$ –
Short-term debtors (b)	18,351,399	10,922,273
Accounts receivable from third parties	3,954,553	-
PARAPAT debtors – (real estate taxes)	752,679	237,403
Mandate contract – RTVC	–	779,820
	<b>\$ 98,500,755</b>	<b>\$ 11,939,496</b>
<b>Long-term</b>		
Other debtors – Valuation of hedging instruments (a) (Note 12)	<b>\$ 144,706,298</b>	<b>\$ 61,083,147</b>

(a) Corresponds to the financial underlying exchange rate valuation and it is used for calculating the leverage ratio.

(b) Includes in 2014 the balance receivable from Publicar for \$1,837,020 (2013 - \$2,906,904), commercial support and media volumes return for \$ 8,350,585 (2013 - \$6,125,726) and other receivables of \$ 6,609,643 (2013 - \$1,889,643).

(2) It includes, for 2014, the roaming portfolio balance of \$20,221,586 (2013 – \$19,501,322) and \$6,147,351 (2013 – \$31,245,361) for international operators, since as of 2014, this business is managed by Telefónica Internacional Wholesale España.

(3) Subsidies and contributions portfolio

#### Voice Subsidies

By means of Resolution 2466 of 2010 a deficit of \$112,765 million was recognized for the period of the application of subsidies under Law 812 of 2003 (2003- 2006). During 2010 and 2011 partial payments of \$61,483 million were received. In 2012, the FONTIC carried out the verification process of the amount recognized and through Resolution 2769 of November 19, 2012 made an adjustment to the initial value, definitely determining a deficit of \$110,345 million originated by the application of Law 812 of 2003, as well as ordering the payment of a balance of \$46,140 million during 2012; thereby paying the balance for the period 2003 - 2006.

# Colombia Telecomunicaciones S.A. ESP

## Notes to Financial Statements (continued)

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

#### *Voice Subsidies*

The deficit assigned from 2007 to 2009, according to Law 1341 of 2009, Article 69 amended by Law 1450 of 2010, will be recovered by the allocation of resources for broadband mass projects in order to reach stratum 1 and 2 (low purchasing power stratum).

Regarding the deficit of telephone subsidies during the transition, i.e., 2010 to 2015, through Resolutions 2599 and 2608 of 2012, the FONTIC recognized and ordered the payment of \$25,967 million for the deficit generated during 2010 and 2011, and a value of \$4,458 million for the deficit generated during 2012, which were disbursed in February of 2013. Therefore, these values were completely collected for the heading of subsidies until 2012. The balance on December 31, 2014 is of \$44,643,195 (2013 – 45,486,225).

#### *Subsidies for access to Internet*

Regarding Internet broadband access, the MinTIC issued Resolution 1363 of 2012, Resolution 1703 of 2012 and Resolution 2775 of 2012 in order to grant subsidies to users in stratum 1 and 2. According to the Company's goals, the amount of subsidies applicable will be of \$69,000 million Colombian pesos at December 2014; for this purpose, the Fund will verify their appropriate application thereof, as well as the reported information. According to Resolution 588 of 2010 and Circular No. 001 of 2013 of the MinTIC, in 2013, the broadband subsidies were offset against the payment of the quarterly fee. The balance on December 31 is of \$10,769,264 (2013 - \$9,693,952).

(4) The following is the movement of the provision for doubtful accounts at December 31:

	<u>2014</u>	<u>2013</u>
Balance at beginning of year	\$ 866,710,067	\$ 841,879,109
Provision of the year charged to results (Note 24)	76,971,916	65,288,291
Written-off accounts receivable	(37,747,170)	(39,096,798)
Provision for late-interest payments (Note 26)	3,503,563	2,349,401
Recovery of provision (Note 27)	(7,628,445)	(3,709,936)
Balance at end of year	<u>\$ 901,809,931</u>	<u>\$ 866,710,067</u>

(5) Accounts receivable from PARAPAT at December 30, 2014 and 2013, correspond to the payments made by the Company upon the agreements with Nortel, Ericsson, Siemens, Itochu and Telenariño and the payment made for the acquisition of BATELSA. The recoverability of these balances is assessed annually based on the sufficiency of assets foreseen for the operation agreement closing, which was established for 2028 (Note 30).

(6) In 2014 includes mainly embargos for judicial proceedings against Celuoriente for \$12,071,981 and proceedings with territorial entities and individuals for \$17,330,654.

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 8. Inventories, Net

The balance of inventories, net, at December 31 comprised the following:

	2014	2013
Mobile telephones and accessories	\$ 82,289,311	\$ 63,285,608
IT equipment	4,893,228	4,867,835
Equipment in transit	21,694,404	8,965,120
Other inventories for sale and materials	3,702,974	8,199,253
Provision for protection of inventories	(4,945,070)	(5,758,484)
	<u>\$ 107,634,847</u>	<u>\$ 79,559,332</u>

The following is the movement of the provision for the protection of inventories during the year from January 1<sup>st</sup> to December 31:

	2014	2013
Balance at the beginning of the year	\$ 5,758,484	\$ 5,545,795
Provision charged to the results of the year (Note 24)	2,817,600	294,539
Recovery of provision (Note 27)	(3,631,014)	(81,850)
Balance at the end of the year	<u>\$ 4,945,070</u>	<u>\$ 5,758,484</u>

#### 9. Intangibles, Net

The balance of intangibles, net at December 31 comprised the following:

2014	Cost	Accumulated Amortization	Net book value
<i>Non amortizable</i>			
Trust rights (1)	\$ 25,665,220	\$ -	\$ 25,665,220
<i>Amortizable</i>			
Mobile telephone concessions (Note 3)	2,775,671,562	(2,209,173,213)	566,498,349
Goodwill (Note 3)	931,121,624	(931,121,624)	-
Qualifying securities (Note 3)	446,343,871	(314,153,976)	132,189,895
Rights and other licenses (2)	153,399,327	(69,426,910)	83,972,417
Goods acquired under financial leasing (3)	19,027,842	(19,027,842)	-
	<u>\$ 4,351,229,446</u>	<u>\$ (3,542,903,565)</u>	<u>\$ 808,325,881</u>
2013	Cost	Accumulated Amortization	Net book value
<i>Non amortizable</i>			
Trust rights (1)	\$ 28,692,143	\$ -	\$ 28,692,143
<i>Amortizable</i>			
Mobile telephone concessions (Note 3)	2,479,656,413	(2,090,994,757)	388,661,656

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 9. Intangibles, Net (continued)

2013	Cost	Accumulated Amortization	Net book value
Goodwill (Note 3)	931,121,624	(921,515,485)	9,606,139
Qualifying securities (Note 3)	446,343,871	(296,224,542)	150,119,329
Rights and other licenses (2)	156,933,555	(74,604,077)	82,329,478
Goods acquired under financial leasing (3)	19,027,842	(19,027,842)	–
	<u>\$ 4,061,775,448</u>	<u>\$ (3,402,366,703)</u>	<u>\$ 659,408,745</u>

(1) Includes the resources assigned to the third Biannual Plan which are pending execution.

(2) Includes, among others, rights of irrevocable use capacity – 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, Gas Natural S.A Fenosa and Azteca Comunicaciones Colombia SAS.

(3) Correspond to equipment received from Leasing de Occidente, which are fully amortized.

The expense recorded in the income statement in 2014 for the amortization of intangibles was of \$155,388,309 (2013 – \$287,969,288).

#### 10. Prepaid Expenses and Deferred Charges, Net

The balance of deferred charges, which includes prepaid expenses and deferred charges, net at December 30, comprised the following:

##### Prepaid expenses

	2014	2013
<b>Short-term</b>		
Services	\$ 3,815,747	\$ 1,591,309
Insurance	6,597,933	6,486,954
Rentals	2,892,805	3,008,659
Other prepaid expenses	–	105,255
	<u>13,306,485</u>	<u>11,192,177</u>
<b>Long-term</b>		
Insurance	4,892,379	3,284,212
	<u>4,892,379</u>	<u>3,284,212</u>
	<u>\$ 18,198,864</u>	<u>\$ 14,476,389</u>

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 10. Prepaid Expenses and Deferred Charges, Net (continued)

##### Net Deferred Charges

2014	Cost	Accumulated Amortization	Net Book Value
Projects:			
Infrastructure for service provision SAP/ERP implementation and invoicing systems	\$ 572,048,279	\$ (471,137,497)	\$ 100,910,782
Software	192,831,908	(191,006,222)	1,825,686
Projects in progress	1,189,128,027	(866,637,816)	322,490,211
Leasehold improvements	12,275,841	-	12,275,841
Equity tax (Note 25)	152,682,841	(128,937,847)	23,744,994
Deferred tax (debit)	136,808,082	(136,808,082)	-
Other deferred charges	111,973,424	-	111,973,424
	11,581,811	(157,460)	11,424,351
	<u>\$ 2,379,330,213</u>	<u>\$ (1,794,684,924)</u>	<u>\$ 584,645,289</u>
2013	Cost	Accumulated Amortization	Net book value
Projects:			
Infrastructure for service provision SAP/ERP implementation and invoicing systems	\$ 573,922,685	\$ (416,995,385)	\$ 156,927,300
Software	192,831,908	(172,331,341)	20,500,567
Projects in progress	1,017,612,612	(686,139,977)	331,472,635
Leasehold improvements	16,392,325	-	16,392,325
Equity tax (Note 25)	136,773,715	(104,780,224)	31,993,491
Other deferred charges	136,808,082	(91,205,388)	45,602,694
	10,542,484	(101,099)	10,441,385
	<u>\$ 2,084,883,811</u>	<u>\$ (1,471,553,414)</u>	<u>\$ 613,330,397</u>

The expense recorded in the income statement of 2014 for the amortization of deferred charges was of \$269,915,248 (2013 – \$284,412,183).

#### 11. Property, plant and equipment, net

The property, plant and equipment balance and depreciation at December 31 was comprised of:

2014	Cost	Accumulated Amortization	Net Book Value
Non depreciable:			
Constructions in progress (1)	\$ 208,281,821	\$ -	\$ 208,281,821
Equipment in warehouse	129,128,556	-	129,128,556
Land	16,932,154	-	16,932,154
	<u>354,342,531</u>	<u>-</u>	<u>354,342,531</u>

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 11. Property, plant and equipment, net (continued)

<b>2014</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Depreciable:			
Telecommunications network (2)	1,287,826,503	(536,090,269)	751,736,234
Telecommunications equipment (3)	4,637,564,762	(2,888,737,863)	1,748,826,899
Computer equipment	601,829,760	(537,551,917)	64,277,843
Machinery and equipment	439,053,512	(272,260,098)	166,793,414
Construction and buildings	328,232,159	(150,515,737)	177,716,422
Furniture and fixtures and office equipment	69,161,709	(37,492,299)	31,669,410
Transportation equipment	2,246,858	(1,833,300)	413,558
	<u>7,365,915,263</u>	<u>(4,424,481,483)</u>	<u>2,941,433,780</u>
	<u>\$ 7,720,257,794</u>	<u>\$ (4,424,481,483)</u>	<u>\$ 3,295,776,311</u>
<b>2013</b>			
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Non depreciable:			
Constructions in progress (1)	\$ 366,646,231	\$ –	\$ 366,646,231
Equipment in warehouse	140,092,361	–	140,092,361
Land	18,271,438	–	18,271,438
	<u>525,010,030</u>	<u>–</u>	<u>525,010,030</u>
Depreciable:			
Telecommunications network (2)	1,219,454,686	(515,782,384)	703,672,302
Telecommunications equipment (3)	4,093,730,934	(2,583,241,933)	1,510,489,001
Computer equipment	624,811,198	(572,214,672)	52,596,526
Machinery and equipment	370,656,825	(243,279,714)	127,377,111
Construction and buildings	274,824,000	(120,544,295)	154,279,705
Furniture and fixtures and office equipment	63,718,032	(33,905,986)	29,812,046
Transportation equipment	3,169,255	(2,540,722)	628,533
	<u>6,650,364,930</u>	<u>(4,071,509,706)</u>	<u>2,578,855,224</u>
	<u>\$ 7,175,374,960</u>	<u>\$ (4,071,509,706)</u>	<u>\$ 3,103,865,254</u>

- (1) Constructions in progress include, among others, civil works and labor for the construction of channeling and network ducts and other civil works in technical sites, telecommunication equipment in installation and assembly process mainly. In addition to the above, this includes labor and materials for contributions of basic line, television and broadband, as well as materials for the deployment of network
- (2) The Telecommunications Network includes the following concepts among others: Pairing Cable, Optical Fiber Cable and Infrastructure.
- (3) Telecommunications equipment include the following headings among others: Network Nodes and Mobile Access Equipment, Commuting Centrals and Transmission Equipment.

The expense recorded in the income statement of 2014 for depreciation of property, plant and equipment was of \$628,464,798 (2013 – \$644,552,498).

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 11. Property, plant and equipment, net (continued)

##### Assets Appraisals

The historical cost, accumulated depreciation and net value correspond to the balances in books at the closing of September 2012, less the effect of depreciation and write-offs. Below is the balance of assets appraisal at December 31:

2014	Cost	Accumulated Depreciation	Net Book Value	Appraisal	Valuation
Fixed line and mobile telephone network	\$ 2,294,139,135	\$ (831,484,097)	\$ 1,462,655,038	\$ 1,532,461,719	\$ 69,806,681
Computer and communication equipment	2,880,301,064	(1,861,298,118)	1,019,002,946	1,026,466,787	7,463,841
Machinery and equipment	248,761,784	(126,522,886)	122,238,898	126,004,199	3,765,301
Office equipment	49,042,358	(25,559,292)	23,483,066	23,483,066	-
Buildings	84,738,844	(39,011,808)	45,727,036	54,403,119	8,676,083
Land	16,932,154	-	16,932,154	24,702,225	7,770,071
Fleet and transportation equipment	3,039,593	(2,068,609)	970,984	1,198,375	227,391
	<u>\$ 5,576,954,932</u>	<u>\$ (2,885,944,810)</u>	<u>\$ 2,691,010,122</u>	<u>\$ 2,788,719,490</u>	<u>\$ 97,709,368</u>

2013	Cost	Accumulated Depreciation	Net Book Value	Appraisal	Valuation
Fixed line and mobile telephone network	\$ 2,342,128,813	\$ (873,732,853)	\$ 1,468,395,960	\$ 1,645,344,751	\$ 176,948,791
Computer and communication equipment	3,093,969,310	(2,070,609,882)	1,023,359,428	1,033,072,799	9,713,371
Machinery and equipment	255,042,047	(132,567,142)	122,474,905	136,484,424	14,009,519
Office equipment	50,833,406	(27,311,828)	23,521,578	24,939,991	1,418,413
Buildings	87,915,589	(42,021,026)	45,894,563	56,199,054	10,304,491
Land	18,271,438	-	18,271,438	26,656,099	8,384,661
Fleet and transportation equipment	3,210,782	(2,172,851)	1,037,931	1,458,275	420,344
	<u>\$ 5,851,371,385</u>	<u>\$ (3,148,415,582)</u>	<u>\$ 2,702,955,803</u>	<u>\$ 2,924,155,393</u>	<u>\$ 221,199,590</u>

#### 12. Financial Obligations

The short and long-term financial obligations balance at December 31, 2014 is shown below:

Short-term	Value	Rate
In local currency		
Credits in local currency	\$ 74,000,000	Fixed 5.49 % Annual
Credits in local currency	50,104,868	DTF 4.00 % Quarterly
Credits in local currency	22,770,000	DTF 1.90 % Annual
	<u>\$ 146,874,868</u>	

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 12. Financial Obligations (continued)

Short-term	Value	Rate
In foreign currency		
Credits in foreign currency (a)	\$ 79,886,832	Libor 6M +0.39 % Semiannual
Credits in foreign currency	<u>125,516,690</u>	Libor 3M +1.35 % Annual
	<u>205,403,522</u>	
	<u>\$ 352,278,390</u>	
<b>Long-term</b>		
In local currency		
Credits in local currency	\$ 600,000,000	IBR +4.39 % Quarterly
Credits in local currency	<u>637,571,295</u>	DTF + 3.40% Quarterly
Credits in local currency	<u>121,464,520</u>	Fija 7.90% Quarterly
	<u>1,359,035,815</u>	
In foreign currency		
Credits in foreign currency (a)	<u>241,005,002</u>	Libor 6M +0.36 % Semiannual
Credits in foreign currency	<u>313,412,261</u>	Libor 6M +2.43 % Semiannual
	<u>554,417,263</u>	
	<u>\$ 1,913,453,078</u>	

- (a) Guarantees of European Investment Bank – Financing contracts between Colombia Telecomunicaciones S.A. ESP. and European Investment Bank (EIB) have commercial guarantees issued by Banco Santander and Banco BCI, being EIB as beneficiary.

The short and long-term financial obligations balance at December 31, 2013 is shown below:

Short-term	Value	Rate
In local currency		
Credits in local currency	\$ 62,000,000	Fixed 5.63 % Annual
Credits in local currency	<u>15,000,000</u>	DTF 1.25 % Annual
	<u>77,000,000</u>	
In foreign currency		
Credits in foreign currency (a)	64,338,941	Libor 6M +0.39 % Semiannual
Credits in foreign currency	211,951,300	Libor 6M +2.70 % Annual
Credits in foreign currency	<u>19,987,863</u>	Libor 3M +1.35 % Annual
	<u>296,278,104</u>	
	<u>\$ 373,278,104</u>	



## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 12. Financial Obligations (continued)

Long-term	Value	Rate
In local currency		
Credits in local currency	\$ 600,000,000	IBR +4.39 % Quarterly
Credits in local currency	719,355,471	DTF + 3.84% Quarterly
Credits in local currency	89,785,212	Fixed 7.90% Quarterly
	<u>1,409,140,683</u>	
In foreign currency		
Credits in foreign currency (a)	258,438,600	Libor 6M +0.39 % Semiannual
	<u>\$ 1,667,579,283</u>	

- (a) Guarantees of European Investment Bank – Financing contracts between Colombia Telecomunicaciones S.A. ESP. and European Investment Bank (EIB) have commercial guarantees issued by Banco Santander and Banco BCI, being EIB as beneficiary.

The maturity of the debt in millions of local and foreign currency at December 31 is as follows:

Maturity	2014		2013	
	Local Currency	Foreign Currency	Local Currency	Foreign Currency
2014	\$ -	\$ -	\$ 77,000,000	\$ 296,278,105
2015	146,874,868	205,403,522	87,604,868	64,338,941
2016	320,669,041	393,299,092	328,078,902	64,338,941
2017	350,305,214	79,886,832	352,285,171	64,338,941
2018 thereafter	688,061,560	81,231,339	641,171,742	65,421,776
	<u>\$ 1,505,910,683</u>	<u>\$ 759,820,785</u>	<u>\$ 1,486,140,683</u>	<u>\$ 554,716,704</u>

The amount of interests payable at December 2014 was \$8,774,951 (2013 - \$7,051,201).

#### Hedging Financial Instruments

The Company has as policy covering the entire foreign exchange exposures, therefore, at the closing of December 31st, the valuation of the financial hedging corresponded to Non Delivery Forward (NDF, for its English acronym), Cross Currency Interest Rate Swap (CCIRS, for its English acronym) and Interest Rate Swap (IRS, for its English acronym) operations to cover financial liabilities and trade accounts in USD and EUR.

- a. Once the market price valuation of the assets and liabilities of the hedging operations is performed, the accounting records for each of the components are the following:

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 12. Financial Obligations (continued)

##### Hedging Financial Instruments (continued)

	2014	2013
Short term:		
Per financial exchange rate*	\$ 40,097,944	\$ (4,491,462)
Per commercial exchange rate	38,627,215	5,190,016
Per interest rate	(3,283,035)	(20,394,064)
Total asset position (Note 7) (liability) (Note 16)	<u>75,442,124</u>	<u>(19,695,510)</u>
Long term:		
Per financial exchange rate*	144,706,298	61,083,147
Total asset position (Note 7)	<u>\$ 144,706,298</u>	<u>\$ 61,083,147</u>

\* Values to be considered for calculating the covenant leverage ratio of the Senior Convertible Note 2022.

- b. The value of the component of other interest rate effects recorded in the memorandum accounts is the following:

	2014	2013
Other interest rate effects (Note 21)	\$ 25,019,472	\$ (140,290,782)
Net asset position (liability)	<u>\$ 245,167,894</u>	<u>\$ (98,903,145)</u>

#### 13. Suppliers and Accounts Payable

Suppliers and accounts payable at December 30 are detailed below:

	2014	2013
<b>Short-term:</b>		
Costs and expenses payable	\$ 313,959,898	\$ 348,999,551
Suppliers paid in foreign currency	399,680,884	389,294,209
Domestic suppliers	115,146,762	130,161,739
Shareholders, related parties and associated companies (Note 28)	120,802,577	117,531,577
Official creditors	-	6,537,556
Interconnection suppliers	11,886,216	10,572,126
Payroll withholdings and contributions	5,306,636	2,677,998
	<u>\$ 966,782,973</u>	<u>\$ 1,005,774,756</u>
<b>Long term</b>		
Long term cost and expenses payable	<u>\$ 182,689,984</u>	<u>\$ -</u>

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 14. Taxes, Levies and Rates

Taxes, Levies and Rates are detailed at December 31:

	<b>2014</b>	<b>2013</b>
Taxes, contributions and rates payable	\$ 49,234,355	\$ 25,526,654
Value Added Tax – VAT	45,332,113	43,555,581
Tax withholdings	44,333,895	27,185,810
Income tax and supplementary (Note 25)	8,874,254	5,420,352
Equity tax (Note 25)	–	45,602,694
	<b>\$ 147,774,617</b>	<b>\$ 147,291,091</b>

#### 15. Labor liabilities

Labor liabilities are detailed at December 31:

	<b>2014</b>	<b>2013</b>
Vacations	\$ 13,005,436	\$ 12,192,613
Severance payments	11,232,611	10,297,039
interests on severance payments	1,314,894	1,226,506
	<b>\$ 25,552,941</b>	<b>\$ 23,716,158</b>

#### 16. Estimated Liabilities and Provisions

The balance of estimated liabilities and provisions at December 31 comprises:

	<b>2014</b>	<b>2013</b>
<b>Short-term:</b>		
Costs and expenses* (1)	\$ 200,247,136	\$ 323,408,012
Provisions for fringe benefits	41,972,567	34,952,019
Contingencies (Note 29)	25,669,241	11,992,956
Miscellaneous provisions	13,183,500	10,024,206
Tax obligations	934,740	139,685
	<b>\$ 282,007,184</b>	<b>\$ 380,516,878</b>
<b>Long-term:</b>		
Long-term contingencies (Note 29)	<b>\$ 18,663,864</b>	<b>\$ 8,413,335</b>

\* Includes 2014 items in foreign currency for US\$19,947,739 (2013 - US\$28,033,171)

(1) The costs and expenses account includes:

	<b>2014</b>	<b>2013</b>
Other costs and expenses (a)	\$ 109,981,777	\$ 199,991,573
Interconnection	38,091,754	39,010,622
Commissions and commercial severance	27,955,591	34,153,725
Utilities	12,810,165	14,766,280
Licenses and maintenance	10,333,896	14,482,837
Rentals	1,073,953	1,307,465
Valuation of hedge instruments	–	19,695,510
	<b>\$ 200,247,136</b>	<b>\$ 323,408,012</b>

(a) In 2014 it includes, among others, rental network infrastructure, content suppliers, Roaming charges, affirmative covenants, among the most significant.

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 17. Deferred Liabilities

The balance of deferred liabilities at December 31 is presented below:

	2014	2013
<b>Short-term:</b>		
Income received in advance:		
Other income received in advance.	\$ 10,900,027	\$ 16,711,185
Rights of use and enjoyment of sites and towers (Note 30)	10,379,031	10,296,439
Income – Prepaid platform	8,259,916	8,424,415
Irrevocable rights of use – IRU	2,096,421	2,146,455
Telephone books – Publicar	242,748	3,578,058
	<u>\$ 31,878,143</u>	<u>\$ 41,156,552</u>
<b>Long-term:</b>		
Income received in advance:		
Rights of use and enjoyment of sites and towers (Note 30)	\$ 127,147,263	\$ 137,604,757
Deferred tax	69,193,785	-
Irrevocable rights of use – IRU	12,641,596	14,753,161
Credit for deferred monetary correction	-	794,271
	<u>\$ 208,982,644</u>	<u>\$ 153,152,189</u>

#### 18. Other Liabilities

The balance of other liabilities at December 31 is comprised of the following:

	2014	2013
Income received from third parties (2)	\$ 39,899,220	\$ 41,916,158
Deposits received from third parties (1)	23,718,118	71,781,366
Deposits received in guarantee	3,392,848	3,757,757
	<u>67,010,186</u>	<u>117,455,281</u>
Less – Other long-term liabilities (3)	22,984,415	85,026,493
	<u>\$ 44,025,771</u>	<u>\$ 32,428,788</u>

(1) Deposits received from third parties include:

FONTIC – III Biannual Plan	\$ 23,126,768	\$ 25,809,138
Radio Spectrum license	-	43,208,568
Other deposits received from third parties	591,350	2,686,948
Others	-	76,712
	<u>\$ 23,718,118</u>	<u>\$ 71,781,366</u>

(2) Includes in 2014, among others, the following items; promissory note of Telenariño of \$18,941,520 (2013 - \$18,941,520), and collections in favor of third parties \$20,899,002 (2013 - \$4,422,501), among others.

(3) Includes income received for third parties and long-term promissory notes

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 19. Bonds and Commercial Papers

The balance of bonds and commercial papers at December 31 is comprised of:

	2014	2013
Bonds and commercial papers (1)	<b>\$ 1,794,345,000</b>	\$ 1,445,122,500

(1) The following are the characteristics of the bonds issue (in thousands of USD):

Type	Issuance Currency	Total Amount of Issuance	Par value	Total Authorized amount	Rate / Coupon	Issuance Date	Maturity Date	
Rule 144A	Dollar	USD 750,000	USD 750,000	USD 750,000	5,375%	27-sept-12	27-sept-22	
Premiums and Discounts	Issuance Character	Issuance Date	Maturity Date	Maximum redemption term	Interest Rate	Payment method	Guarantees and Cancellation conditions	Disclose if applicable, current and non-current part of bonds payable
\$ -	Substitution of financial liabilities	27-sep-12	27-sep-22	10 years	5,375%	Semi-annual	N/A	Non-current; amortization bullet.

At year-end 2014, accrued interest on bonds amounted to \$29,282,714 (2013 - \$23,583,596)

#### Compliance with Obligations Acquired with Bondholders

The covenants established in the "Description of the Notes" section were complied with from January first (1st) to December thirty one (31) of two thousand fourteen (2014) mentioned in the Bond Issuance Offering Memorandum. Consequently, no event occurred during this period that involves the acceleration of securities pursuant to the provisions of the Prospectus of issue and of the Agreement between Colombia Telecomunicaciones S.A. ESP and the Bank of New York Mellon. The Bank of New York Mellon was designated as the trustee in accordance with the Trust Agreement (indenture). Therefore, the Bank of New York Mellon acts as trustee, transfer agent and the main payment agent related with the bonds.

In respect of the financial leverage indicator as of December 31, 2014, the Company maintained a Debt/EBITDA ratio of 2.72 times (2013 - 2.54 times), complying with the covenant acquired with bondholders, under which the leverage ratio cannot exceed 3.75 times.

#### 20. Shareholders' Equity, Net

##### Share Capital

The Company's share capital may be increased or decreased at any time through the corresponding amendment of the bylaws, processed and approved by the General Shareholders' Meeting and duly formalized in the way provided for by the Law, the Investment Master Agreement and the Bylaws.

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

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

##### Share Capital (continued)

At December 31, 2014 and 2013, the authorized, subscribed and paid capital was \$1,454,870,740.

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

Authorized Capital	\$ 1,454,870,740
Subscribed and paid-in capital	1,454,870,740
Number of outstanding shares	1,454,870,740
Par value (in Colombian pesos)	<u>1,000</u>

Based on the above, the equity participation at December 31, 2014 y 2013 is detailed below:

<u>Companies</u>	<u>N° of Shares</u>	<u>Value</u>
Telefónica Internacional S.A.U.	473,457,094	\$ 473,457,094
La Nacion – Ministry of Finance	436,461,222	436,461,222
Olympic Ltda., in Liquidation	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 S.L.	2	2
Central de Inversiones S.A. – CISA	1	1
Terra Networks Colombia S.A.S.	1	1
	<u>1,454,870,740</u>	<u>\$ 1,454,870,740</u>

##### Additional Paid in Capital

The balance is comprised of the difference between each share's par value and its placement price. The value of this account is not susceptible of being distributed as dividends.

##### Reserves

As of December 31, 2014 and 2013, the Company records among others the following reserves:

##### *Legal Reserve*

The Company is required to appropriate as legal reserve 10% of its annual net profits, until the balance of this reserve is equivalent to 50% of the subscribed capital. The reserve is not distributable before the Company's liquidation, but may be used to absorb or reduce losses. Appropriations in excess of the above mentioned 50% are of free disposition by the General Shareholders' Meeting. According to Minute No 51 of the Ordinary Shareholders Meeting held on March 27 of 2014, the financial statements and notes to the financial statements for 2013 were approved, including the decision to wipe out some of the losses of the year 2013, with the entire Company's Legal Reserve \$60,479,897.

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

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

##### Reserves (continued)

###### *Reserves by tax provisions*

In accordance with tax regulations, when the Company claims in its income tax return depreciation installments that exceed the value of the installments recorded in the accounting, it sets up a non-distributable reserve equivalent to 70% of the higher amount claimed as deduction. When the depreciation claimed for tax purposes is lower than that recorded in the accounting, the Company may release from such reserve an amount equivalent to 70% of the difference between the amount claimed and the accounted value; profits released from the reserve may be distributed as revenue not constituting income.

###### *Statutory Reserve*

Records the appropriate values according to the provisions of the company's bylaws.

#### 21. Memorandum Accounts

The balance of memorandum accounts at December 31 comprised:

	<u>2014</u>	<u>2013</u>
Debit accounts:		
Contingent rights:		
Goods held by third parties	\$ 85,845,541	\$ 16,357,582
Contingent rights upon the concession	600,947,026	368,989,265
Litigation and/or lawsuits in favor	112,737,957	120,775,409
Valuation of hedge instruments ( <i>Note 12</i> )	25,019,472	-
	<u>824,549,996</u>	506,122,256
Tax accounts: ( <i>Note 25</i> )		
Accumulated tax losses	2,519,495,675	2,504,062,309
Excess of presumptive income	118,867,581	186,339,993
	<u>2,638,363,256</u>	2,690,402,302
Control accounts:		
Assets inflation adjustments	96,103,749	140,067,939
Assets written-off	18,666,020	18,666,020
Accounts receivable written-off	1,007,099,221	962,410,151
Other memorandum accounts	858,559	-
Property, plant and equipment, fully depreciated	2,703,390,400	2,093,409,171
	<u>3,826,117,949</u>	3,214,553,281
Total debit memorandum accounts	<u>\$ 7,289,031,201</u>	<u>\$ 6,411,077,839</u>

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 21. Memorandum Accounts (continued)

	2014	2013
Credit accounts:		
Contingent responsibilities:		
Litigation and/or lawsuits (improbable)	\$ 1,873,187,405	\$ 4,100,447,238
Agreements pending execution (Note 30)	5,564,771,355	4,425,026,898
PARAPAT Payment Obligations (Note 2)	482,059,790	292,452,107
Contractual guarantees	17,670,058	14,037,875
Valuation of hedge instruments (Note 12)	-	140,290,782
	<u>7,937,688,608</u>	<u>8,972,254,900</u>
Tax accounts: (Note 25)		
Difference between accounting and tax equity	710,676,789	731,690,752
Difference between accounting and tax loss	120,356,330	83,619,497
	<u>831,033,119</u>	<u>815,310,249</u>
Control accounts:		
Assets corresponding to TELECOM and Telesociadas in liquidation, net	778,713,750	901,136,669
Equity inflation adjustments	483,898,771	529,501,465
	<u>1,262,612,521</u>	<u>1,430,638,134</u>
Total credit memorandum accounts	<u>\$ 10,031,334,248</u>	<u>\$ 11,218,203,283</u>

#### 22. Operating Revenues

Operating revenues for the year ended December 31 are the following:

	2014	2013
Telecommunication Services – Fixed Operation:		
Local telephone	\$ 441,870,935	\$ 550,419,047
Broadband	435,092,727	404,539,545
Data transmission services	263,653,008	239,923,345
Domestic and international long-distance	232,589,615	249,268,733
Satellite television	162,017,092	118,747,729
Other operating revenues (1)	71,342,767	89,234,673
Rental of voice, data and other equipment	69,514,773	53,048,975
Wholesale and retail commerce – equipment sale	46,990,184	56,677,230
Subventions (2)	8,639,194	8,165,549
Telecommunication Services – Mobile Operation:		
Basic charges and time on air	1,736,554,826	1,517,901,130
Data services and transmission - connectivity	671,634,031	460,966,157
Income from sale of terminal equipment and accessories	301,041,138	257,894,741
Other added value services (3)	164,384,890	161,576,706
Other income from mobile telephone services (4)	34,674,083	32,411,563
	<u>\$ 4,639,999,263</u>	<u>\$ 4,200,775,123</u>

(1) Includes, among others, turnkey projects, as well as revenues from telephone books, reconnections and other telephone and added value services (VAS, for its English acronym).



## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 22. Operating Revenues (continued)

- (2) Includes funds received for the deployment of the III Biannual Plan
- (3) Includes contents' unloads and applications, text messenger services, added value services
- (4) Includes commercial support, invoicing and collection services, expired recharges and links' rental.
- (5) Resolution 542 of March, 2014, of the Ministry of Information Technologies and Communications determined that the basis for the settlement of the consideration consists of gross income. Following this guideline since 2014, the revenues and costs are recorded at their gross amount, for the year 2013, was performed by the net amount with impact of \$209,227,729.

#### 23. Costs of Sales and of Services Rendered

The cost of sales and services rendered for the year ended December 31 is as follows:

	<u>2014</u>	<u>2013</u>
Cost of sales of mobile equipment and accessories	\$ 389,491,151	\$ 378,392,830
Interconnection with domestic operators	366,362,484	194,216,015
Use of telecommunications' infrastructure	238,001,684	220,490,875
Maintenance and repairs	201,013,523	180,160,025
Compensation rate	148,584,952	162,011,185
Utilities	113,892,313	111,013,125
Added value services for the use of platforms	113,084,594	138,837,322
Personnel costs	63,779,187	60,729,437
Orders and contracts for other services	61,147,729	50,086,558
Leases	52,449,103	49,024,838
Cost of sales of other equipment	31,223,574	41,744,523
Interconnection with international operators	28,378,494	34,933,879
Fees	25,695,535	22,746,815
Retribution for rendering of roaming services	16,465,427	24,317,690
Miscellaneous	8,471,590	8,306,521
Travel Expenses	6,008,025	6,675,414
Printed materials and publications	4,170,343	4,602,581
	<u>\$ 1,868,219,708</u>	<u>\$ 1,688,289,633</u>

- (1) Resolution 542 of March, 2014, of the Ministry of Information Technologies and Communications determined that the basis for the settlement of the consideration consists of gross income. Following this guideline since 2014, the revenues and costs are recorded at their gross amount, for the year 2013, was performed by the net amount with impact of \$209,227,729.

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 24. Operating Expenses Administrative, Selling and Provision

Operating expenses administrative, selling and provisions for the year ended December 31 are presented below:

	2014	2013
Administrative:		
Utilities	\$ 110,512,282	\$ 117,431,163
Personnel expenses	102,261,974	93,489,650
Taxes, levies and rates	66,646,595	64,587,988
Maintenance and repairs	43,489,994	36,686,858
Insurance	13,142,865	13,693,651
Fees	12,370,493	10,814,508
Miscellaneous	10,747,114	10,089,611
Contributions and affiliations	7,815,836	7,937,803
Leases	7,447,825	7,049,865
Travel expenses	3,793,014	4,519,706
Legal expenses	388,806	456,322
	<u>\$ 378,616,798</u>	<u>\$ 366,757,125</u>
Selling:		
Commissions	188,056,688	205,797,399
Utilities	166,782,701	166,172,816
Personnel expenses	141,430,559	139,957,946
Advertising, publicity and promotion	135,279,197	129,839,423
	<u>\$ 631,549,145</u>	<u>\$ 641,767,584</u>
Provisions:		
Doubtful accounts (Note 7)	\$ 76,971,916	\$ 65,288,291
Protection of inventories (Note 8)	2,817,600	294,539
	<u>\$ 79,789,516</u>	<u>\$ 65,582,830</u>

#### 25. Income Tax

The tax regulations which are applicable to the Company establish the following:

- (a) As of 2008, the provision for the income tax is computed at the rate of 33% by the accrual method on the net income basis. The income tax returns may be reviewed by the tax authorities within 2 years following their filing date.
- (b) Summarized below are the main tax regime modifications as of 2013, which were incorporated by Law 1607 of December 26, 2012
  1. The income tax rate decreased from 33% to 25% as of the taxable year 2013.
  2. The "CREE" income tax for equity was created as of 2013. This tax is computed based on the gross revenues received, minus the non-income revenues, costs, deductions, exempt income and miscellaneous income at a rate of 9%. For 2013 and 2014 in determining the base for the liquidation of the CREE tax, the compensation of tax losses or excesses of the presumptive income is not permitted.

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 25. Income Tax (continued)

3. Legal entities which are subject to income tax are exonerated from the payment of tax-related employer contributions in favor of the National Apprenticeship Service (SENA, for its Spanish acronym) and of the Family Welfare Colombian Institute (ICBF, for its Spanish acronym) corresponding to employees who earn, individually considered, up to 10 current minimum monthly legal salaries. Exemption governing with the issuance of Decree 862 and 1828 of 2013, with the implementation of the system is implemented for the collection of the income tax for the CREE
  4. It is established that only for tax purposes, the references to the accounting principles contained in the tax regulations will continue in force during 4 years following the enforcement of the International Financial Reporting Standards (2015)
  5. The way of calculating taxed and non-taxed profits for companies which distribute profits to their partners or shareholders is modified; and,
  6. New rules are introduced regarding the transfer pricing regime in operations with related parties located in free trade zones and certain operations of taxpayers with foreign entities with a permanent establishment in Colombia or abroad are regulated.
- (c) Pursuant to the provisions of Article 73 of Law 1341 of 2009 and Article 24 of Law 142 of 1994, telecommunication companies, companies that provide basic commuted public telephone services, local mobile telephone in the rural sector and long distance services are excluded from the presumptive income. to the provisions of Article 73 of Law 1341 of 2009 and Article 24 of Law 142 of 1994, telecommunication companies, companies that provide basic commuted public telephone services, local mobile telephone in the rural sector and long distance services are excluded from the presumptive income.
- (d) The excesses of presumptive income over ordinary income as of 2003 may only be compensated with the net ordinary income obtained within the following five years. In all cases, the excess of presumptive income over net ordinary income may be readjusted.
- (e) In 2014, Law 1739 is approved, establishing a surcharge on the income tax CREE, which is progressive and temporary from 2015 to 2018, establishing the total rate of taxation as follows; 2015 - 39%, 2016 - 40%, 2017- 42%, 2018 - 43%. The law repeals the decrease of the CREE rate established by Law 1607, setting as definitive and indefinite the rate of 9%. Based on the above, the rate of the corporate taxes is 34%, from 2019.

Below is a summary of the main reconciling items between accounting and tax values at December 31

	<b>2014</b>	<b>2013</b>
Loss before the provision for income tax	\$ (22,528,567)	\$ (256,592,379)
Permanent differences:		
Non-deductible expenses, net	(22,138,380)	(17,919,321)
Amortization of goodwill	9,606,139	38,514,183
Tax on financial movement	9,455,332	9,190,720

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 25. Income Tax (continued)

	<u>2014</u>	<u>2013</u>
Temporary differences:		
Provisions	84,330,819	61,198,619
Derivative instruments	(175,530,132)	(134,101,846)
Excess of accounting vs. tax depreciation	134,157,072	166,087,515
Difference of accounting vs. tax accounting portfolio	80,475,480	(48,557,459)
Taxable profit (tax loss)	<u>\$ 97,827,763</u>	<u>\$ (182,179,968)</u>
Current tax at 25%	\$ (24,456,941)	\$ -
Compensation of tax credits	24,456,941	-
Tax on equity CREE 9%	(8,804,490)	(5,420,352)
Deferred income tax	42,779,639	-
Total recovery (expense) per income tax	<u>\$ 33,975,149</u>	<u>\$ (5,420,352)</u>

Considering that the Company has substantially improved its operating and financial performance, significantly reducing losses before taxes; pursuant to applicable accounting standards and tax code, the Company proceeded to recognize the deferred tax arising from temporary differences to 2014.

#### Deferred Tax

The movement and balance of deferred income tax assets and liabilities at 31 December is as follows:

	<u>2014</u>
Deferred income tax assets:	
Opening balance	\$ -
Year movement	\$111,973,424
End balance	<u>111,973,424</u>
Deferred income tax liabilities:	
Opening balance	-
Year movement	(69,193,785)
End balance	<u>(69,193,785)</u>
Net deferred income tax	<u>\$ 42,779,639</u>

The Company does not recognize the deferred tax on tax losses and excess of presumptive income, pursuant to the sentence of the State Council 6822 of May of 2002.

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 25. Income Tax (continued)

##### Deferred Tax (continued)

A summary of the main reconciling items between accounting equity and tax equity at December 31 is as follows:

	2014	2013
<b>Accounting equity</b>	<b>\$ 973,420,350</b>	<b>\$ 1,131,199,014</b>
Plus – Items that increase accounting equity:		
Accumulated accounting amortization of licenses	306,387,590	289,421,477
Excess of accumulated accounting vs. tax depreciation	533,114,833	171,114,439
Accumulated accounting software amortization	504,987,815	686,139,977
Estimated liabilities and provisions	243,217,520	426,435,274
Provision for accounts receivable	901,809,931	866,710,067
Provision for inventories	4,945,070	5,758,485
Difference of intangible vs. accounting tax cost	76,198,871	76,198,874
Value added tax and consumption tax	–	918,724
Less – Items that decrease accounting equity:		
Accounting cost of goodwill	–	9,606,139
Accumulated tax accounting amortization – licenses	512,659,997	512,659,997
Equity tax	–	45,602,694
Accumulated tax accounting amortization - software	705,941,094	541,253,176
Assets appraisals	97,709,368	221,199,590
Deferred tax	42,779,639	–
Tax provision for accounts receivable	500,894,743	500,894,743
<b>Net tax equity</b>	<b>\$ 1,684,097,139</b>	<b>\$ 1,822,679,992</b>

##### Tax Losses

At December 31, 2014, the Company accumulates tax losses of \$2,519,495,675 of which in accordance with the current tax legislation generated losses between 2003 and 2006 can be compensated within the following eight years with the limitation of 25% annually; and losses generated from the year 2007 can be used to offset future taxable income, if any, without time and amount limit. In all cases the tax losses are adjusted annually. Tax losses were originated as follows:

Years	Tax Loss (1)	Tax Adjustments	Adjusted loss	Expiration Date	Amortization	Balance
2006	\$ 17,773,944	\$ 6,196,181	\$ 23,970,125	2014	\$ 23,970,125	\$ –
2007	178,565,136	50,455,108	229,020,244	Unlimited	–	229,020,244
2008	252,872,931	48,621,504	301,494,435	Unlimited	–	301,494,435
2009	607,726,010	101,694,097	709,420,107	Unlimited	–	709,420,107
2010	311,341,968	46,166,097	357,508,065	Unlimited	–	357,508,065
2011	480,733,237	53,536,431	534,269,668	Unlimited	–	534,269,668
2012	190,147,498	10,190,689	200,338,187	Unlimited	–	200,338,187
2013	182,179,968	5,265,001	187,444,969	Unlimited	–	187,444,969
	<u>\$ 2,221,340,692</u>	<u>\$ 322,125,108</u>	<u>\$ 2,543,465,800</u>		<u>\$ 23,970,125</u>	<u>\$ 2,519,495,675</u>

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 25. Income Tax (continued)

##### Tax Losses (continued)

(1) Based on the tax returns.

The excess of presumptive income over ordinary net income at December 31, 2014, is as follows:

Years	Excess Income (1)	Tax Adjustments	Adjusted Excess	Expiration Date	Amortization	Balance
2009	\$ 63,261,423	\$ 9,596,214	\$ 72,857,637	2014	\$ 72,857,637	\$ –
2010	54,602,929	6,838,912	61,441,841	2015	–	61,441,841
2011	52,896,584	4,529,156	57,425,740	2016	–	57,425,740
	<u>\$ 170,760,936</u>	<u>\$ 20,964,282</u>	<u>\$ 191,725,218</u>		<u>\$ 72,857,637</u>	<u>\$ 118,867,581</u>

(1) Taken from the tax returns.

Income tax returns for taxable years 2008, 2009, 2010, 2011, 2012 and 2013 may be reviewed by the tax authorities within 5 years of the filing date and/or amendment, considering that the returns presented tax losses. In the opinion of Management, in the event such review takes place, no significant differences are expected involving changes in the tax computed or in penalties that lead to the recognition of contingencies in the financial statements

The following chart summarizes the status of the income tax returns and the Income Tax for CREE of Colombia Telecomunicaciones S.A. ESP, which may be subject to the review by the tax authorities:

Taxable Period	Closing Date for Review
2013 CREE	April, 2016
2013	April, 2019
2012	April, 2018
2011	July, 2017
2010	April, 2018
2009	November, 2016
2008	April, 2016

The status of the income tax returns of Telefónica Móviles Colombia S.A., the company that was absorbed by the merger with Colombia Telecomunicaciones S.A. ESP, is detailed below:

Taxable Period	Closing Date for Review
2011	August, 2017
2010	April, 2018
2009	April, 2017
2008	April, 2014

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 25. Income Tax (continued)

##### Tax Losses (continued)

The income tax return of 2013 showed a positive balance of \$65,920,762 and the income tax return of the CREE of \$12,175,975, with a credit balance of \$78,096,737; from which \$54,896,684 was off-set with the VAT Sales Tax in the first two months of 2014, \$19,149,117 of the VAT corresponding to the second bimonthly period of 2014 and the refund in TIDIS of \$4,050,936.

##### CREE Tax

The minimum tax for both the CREE and the income tax use a fiction equity basis to determine the minimum tax payable. This is even more evident if it is considered that the same Article 22 of Law 1607 refers to Articles 189 and 193 of the Tax Code, which regulates this aspect for income tax purposes. It is important to consider that when the CREE tax and the income tax make reference to an equity basis calculation to define the minimum tax amount, the nature of the tax on profit is not lost in order to be converted into tax on equity, since this reference corresponds to an income legal fiction established by the legislator. Considering that the income tax for equity CREE has a specific destination, which is aimed to guarantee the general social security system, such situation is not opposed to affirming that we are facing an income tax, since as mentioned above, the factors for its determination so define it.

As of 2013, the provision for the tax for equity CREE is computed at the rate of 9% by the higher value between the accrual method on the basis of net income and the presumptive income method,. The income tax returns may be reviewed by the tax authorities within 2 years following their filing date.

Based on the above structural elements that frame up this tax as an income tax, such as its generator fact, which is the generation of profits and its legislative framework, denotes that this tax is configured as an income tax with which it is also concluded that the highest ranking in the Company's income statement is as an income tax expense.

The determination of the income tax for equity CREE is presented as follows:

	<u>2014</u>	<u>2013</u>
Net tax equity for 2013 - 2012 (1)	<b>\$ 1,822,679,991</b>	\$ 2,007,537,779
3% tax base	<b>54,680,400</b>	60,226,133
Income tax rate for the equity CREE	<b>9%</b>	9%
Minimum annual income tax for equity CREE	<b><u>\$ 4,921,236</u></b>	<b><u>\$ 5,420,352</u></b>

(1) Based on the tax return.

The determination of the income tax for equity CREE for the year 2014 on the tax profit is presented as follows:

Income tax	\$ 97,827,762
Less – Items not taxed with CREE	<u>(97)</u>
CREE Tax Basis	<u>97,827,665</u>
Tax for equity CREE	<b><u>\$ 8,804,490</u></b>

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 25. Income Tax (continued)

##### Capital Gains Tax

The capital gains tax expense was \$69,765 corresponding to 2014 and \$62,565 to 2013, for a value at year-end of \$132,330.

##### Equity Tax

Law 1370 of 2009 established an equity tax for the taxable year 2011, payable by legal entities, individuals and de facto companies. This tax is generated upon the ownership of equity at January 1<sup>st</sup>, 2011, which amount is equal to or higher than \$3,000,000. The equity tax rate is four point eight per cent (4.8%) for equities which taxable basis is equal or higher than \$5,000,000 Colombian pesos.

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

The Equity tax for 2011 was determined as follows

a).Colombia Telecomunicaciones S.A. ESP	
Net equity 01/01/2011	\$ 1,276,960,039
Rate of 4.8% of equity tax	61,294,082
Surtax of 25%	15,323,520
Total equity tax	<u>\$ 76,617,602</u>
b) TelefónicaTelefónica Móviles Colombia S.A.(Absorbed Company)	
Net equity 01/01/2011	\$ 1,763,219,454
Rate of 4.8% of equity tax	84,634,534
Surtax of 25%	21,158,633
Total equity tax	<u>\$ 105,793,167</u>

In September 2014, the last installment of the balance payable of the equity tax was paid.

##### Wealth Tax

The wealth tax is established by Law 1739 for legal entities for the years 2015, 2016 and 2017, which taxes the taxpayers' net equity at January 1<sup>st</sup> of the corresponding years.

##### Equity Revaluation

In 2011, the Company opted for the alternate treatment of accounting as deferred charges the portion pending payment of the equity tax and the surtax which was amortized at the year-end. The value paid as equity tax in 2014 was \$45,602,694.

For 2012 and based on the approval of the General Shareholders' Meeting according to minute No. 46 of August 31<sup>st</sup>, 2012, the Company opted for the alternate treatment of recording as a reduction of the equity revaluation account value, the portion earned of the equity tax and the surtax, so that by 2014 the amount of \$45,602,694 was amortized against that account.



## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 25. Income Tax (continued)

##### Transfer Pricing

As of 2004, the requirement to make a transfer pricing study was enforced with the aim to support the Company's operations with its foreign related parties. The Company filed its individual transfer pricing return and its supporting documentation for 2013, without generating contingencies in the Income Tax Return for that period; At the date of this report, the Company is carrying out the transfer pricing study that will determine the effect in respect to the calculation of the provision for income taxes in 2014, although the Company's Administration estimates that no significant adjustment in the calculation will arise.

#### 26. Financial Expenses, Net

Net financial expenses for the year ended December 31 are presented as follows:

	2014	2013
Income:		
Interest collected from late payment	\$ 7,364,178	\$ 10,070,902
Interests collected from financing	1,178,766	678,957
Financial yields	958,594	2,816,023
Other financial income	119,794	11,279
	<u>9,621,332</u>	<u>13,577,161</u>
Expenses:		
Interest on loans, covenants and bonds	(236,952,490)	(215,619,162)
Interest hedge operations, net	(85,950,932)	(82,264,908)
Bank charges and other interests	(38,187,067)	(39,771,974)
Other financial expenses	(7,801,104)	(1,080,191)
Provision for accounts receivable for late payment interest (Note 7)	(3,503,563)	(2,349,401)
Exchange difference expense, net	(1,003,550)	(1,678,333)
Interest paid from late payment of PARAPAT debt	-	(3,642,840)
	<u>(373,398,706)</u>	<u>(346,406,809)</u>
	<u>\$ (363,777,374)</u>	<u>\$ (332,829,648)</u>

#### 27. Other Non-operating Income (Expenses), Net

Other non-operating Income (expenses) for the year ended December 31 are presented as follows:

	2014	2013
Income:		
Recoveries of costs and expenses of:		
Commission for penalization of commercial agents	\$ 13,535,971	\$ 14,893,499
Provision for accounts receivable (Note 7)	7,628,445	3,709,936
Provision for payroll expenses	4,125,365	4,784,884
Provision for inventories (Note 8)	3,631,014	81,850
Other recoveries	7,615,653	7,807,922

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 27. Other Non-operating Income (Expenses), Net (continued)

	2014	2013
Indemnities from insurance companies and third parties	19,711,335	3,500,176
Administration of related parties	9,401,487	3,025,315
Income from the sale of assets, net	2,000,000	800,462
Other non-operating income	1,124,489	1,169,908
Use of waste material	978,340	3,898,029
Deferred liability monetary correction	794,272	3,177,087
Excess of inventories	-	31,228
	<b>\$ 70,546,371</b>	<b>\$ 46,880,296</b>
Expenses:		
Litigation, penalties and contingencies	\$ (36,363,454)	\$ (15,323,160)
Assumed taxes	(19,137,646)	(17,484,032)
Loss on sale of property, plant and equipment	(5,235,095)	(1,986,648)
Other non-operating expenses	(3,147,517)	(3,330,673)
Loss on disposal of intangible and deferred charges	(488,460)	(875,218)
Amortization of goods delivered in guarantee	(279,511)	(4,101,218)
Costs and expenses from prior years	(206,606)	(461,120)
Indemnification for damages to third parties	(42,909)	(61,172)
	<b>(64,901,198)</b>	<b>(43,623,241)</b>
	<b>\$ 5,645,173</b>	<b>\$ 3,257,055</b>

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

The following is the summary of balances of assets and liabilities at December 31 of the Company for transactions with shareholders:

##### a) Shareholders

	Accounts Receivable		Accounts Payable	
	2014	2013	2014	2013
Domestic				
Olympic Ltda. (In liquidation)	\$ 2,389,973	\$ 2,389,973	\$ -	\$ -
Terra Networks Colombia S.A.S	356,307	301,406	1,043,777	5,098,492
Total Domestic	<b>\$ 2,746,280</b>	<b>\$ 2,691,379</b>	<b>\$ 1,043,777</b>	<b>\$ 5,098,492</b>
Foreign:				
Telefónica Internacional S.A.U	\$ 2,225,251	\$ 316,104	\$ 502,208	\$ 1,050,119
Telefónica S.A.	185,187	6,852	28,928,226	23,403,731
Total foreign	<b>2,410,438</b>	<b>322,956</b>	<b>29,430,434</b>	<b>24,453,850</b>
Total shareholders	<b>\$ 5,156,718</b>	<b>\$ 3,014,335</b>	<b>\$ 30,474,211</b>	<b>\$ 29,552,342</b>

The following is the summary of assets and liabilities as of December 31 of the Company for transactions with related parties.

# Colombia Telecomunicaciones S.A. ESP

## Notes to Financial Statements (continued)

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

#### b) Related Parties

	Accounts Receivable		Accounts Payable	
	2014	2013	2014	2013
Domestic:				
Tiws Colombia S.A.	\$ 11,756,855	\$ 16,548,053	\$ 39,360,954	\$ 35,928,735
Wayra Colombia S.A.S.	58,464	188,520	–	52,312
Fundación Telefónica	31,673	–	–	1,088
Telefónica Learning Services	–	–	204,432	–
<b>Total Domestic</b>	<b>\$ 11,846,992</b>	<b>\$ 16,736,573</b>	<b>\$ 39,565,386</b>	<b>\$ 35,982,135</b>
Foreign:				
Tiws S.L España.	\$ 31,599,368	\$ 1,629,233	\$ 11,101,196	\$ 12,708,878
Telefónica Venezolana, C.A.	24,524,471	17,837,221	2,288,045	751,720
Telefónica Digital España S.A.	5,776,845	3,223,544	152,481	130,106
Telefónica Móviles España SAU	1,672,205	1,263,996	3,636,731	830,754
Telefónica Internacional Usa Inc.	1,277,011	1,503,309	5,717,526	1,140,162
Otecel S.A.	961,922	4,079,102	321,250	180,457
Telefónica Brasil S.A.	717,441	238,945	3,674,391	2,869,535
Telefónica Móviles Argentina S.A.	251,526	218,943	397,669	138,808
Telefonica 02 UK LTD	180,813	111,616	581,552	38,874
E-plus Mobilfunk GMBH & CO	187,431	–	39,966	–
Telefónica Móviles Chile	150,960	332,904	969,026	139,004
Telefónica del Perú S.A.	114,199	54,588	498,936	328,450
Telefónica Móviles Panamá S.A.	53,294	660,590	73,253	196,796
Telefonica Móviles México	41,376	63,109	672,648	822,312
Telefónica 02 Germany GMBH CO	12,690	18,662	272,656	81,749
Telefónica Móviles del Uruguay S.A.	12,179	9,981	36,096	11,251
Telefónica de Costa Rica TC S.A.	10,163	17,349	21,611	29,783
Telefónica Móviles Guatemala S.A.	6,116	14,858	14,506	75,377
Telefónica Móviles de el Salvador S.A. de C.V.	4,532	20,948	17,142	45,364
Telefónica Celular de Nicaragua, S.A.	862	3,937	8,576	8,818
Telefónica 02 Eslovaquia SRO	755	–	(20,074)	3,177
Telefónica Global Technology SAU	–	–	7,509,348	8,593,808
Media Networks Latín América	–	–	4,661,597	3,701,488
Telefónica Compras Electrónica, S.A.	–	–	3,384,898	3,520,394
Telefónica Ingeniería Seguridad	–	–	876,553	1,205,026
Telefónica Soluciones Informáticas	–	–	739,608	608,209
Telefónica Gestión de Servicios Compartidos España SAU	–	–	546,289	–
Telefonica Global Roaming GMBH	–	–	527,018	–
Telefónica de Argentina S.A.	–	369,651	295,253	471,519
Telefónica Empresas Chile S.A.	–	–	245,069	–
Telefónica On The Spot Services SAU	–	–	188,011	259,911
Telefónica de España	–	1,244,011	32,561	465,413
Televisión Federal S.A.	–	–	20,413	20,584
TLD Puerto Rico	–	154,761	–	56,280
Telefónica Móviles Perú	–	143,023	–	294,190
Pegaso PCS SA de CV	–	47,891	–	–

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

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

##### b) Related Parties (continued)

	Accounts Receivable		Accounts Payable	
	2014	2013	2014	2013
Terra Networks México, S.A. de C.V.	-	14,867	-	-
Telefónica Czech Republic A.S.	-	4,178	-	7,920
02 Communication (Ireland) Ltd.	-	561	-	19,746
Telefónica Chile Servicios Corporativos	-	96,926	-	-
Telefónica Mundo Chile S.A.	-	85,222	-	221,543
Telefónica Centroamérica S.A	-	33,467	-	-
Grupo de Telecom Mexicana	-	19,172	-	201,639
Telefonica Móviles Soluciones y Aplicaciones	-	-	-	5,006,948
Telefónica Investigación y Desarrollo	-	-	-	191,058
T-Gestiona Chile	-	-	-	283,664
Telefónica Learning Service S.L.U.	-	-	-	179,766
Total foreign	<b>\$ 67,556,159</b>	<b>\$ 33,516,565</b>	<b>\$ 49,501,801</b>	<b>\$ 45,840,481</b>
Total related parties	<b>\$ 79,403,151</b>	<b>\$ 50,253,138</b>	<b>\$ 89,067,187</b>	<b>\$ 81,822,616</b>

The following is the summary of assets and liabilities as of December 31 of the Company with associated companies:

##### c) Associated Companies

	Accounts Receivable		Accounts Payable	
	2014	2013	2014	2013
Domestic:				
Telefónica Factoring Colombia S.A.S	\$ -	\$ 222,782	\$ -	\$ -
Foreign:				
Telecom Itália S.P.A	<b>680,069</b>	391,286	<b>1,262,799</b>	6,038,233
Telecom Italia Sparkle S.P.A	-	3,455,345	-	-
Tim Celular S.A.	<b>261,311</b>	126,419	<b>(1,620)</b>	118,386
Total Foreign	<b>941,380</b>	3,973,050	<b>1,261,179</b>	6,156,619
Total associated companies	<b>\$ 941,380</b>	<b>\$ 4,195,832</b>	<b>\$ 1,261,179</b>	<b>\$ 6,156,619</b>

The following is a summary as of December 31 of the Company's revenues, costs and expenses and accounting notes of the transactions carried out during the period from January 1<sup>st</sup> to December 31 with shareholders, related parties and associated companies:

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

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

##### a) Shareholders

	Revenues		Costs and Expenses	
	2014	2013	2014	2013
Domestic:				
Terra Networks Colombia S.A.	\$ 790,519	\$ 353,953	\$ 1,957,347	\$ 5,309,498
Foreign:				
Telefónica Internacional S.A.U.	1,621,362	672,514	(251,840)	861,953
Telefónica S.A.	174,048	(10,439)	48,692,736	43,616,293
Total foreign	1,795,410	662,075	48,440,896	44,478,246
Total shareholders	\$ 2,585,929	\$ 1,016,028	\$ 50,398,243	\$ 49,787,744

##### b) Related Parties

Domestic:				
Tiws Colombia S.A.	\$ 15,427,376	\$ 13,751,377	\$ 34,323,754	\$ 31,320,520
Wayra Colombia S.A.S.	368,590	432,008	–	52,312
Fundacion Telefonica	26,735	–	–	20,600
Telefonica Learning Services	–	–	73,244	–
Total domestic	15,822,701	14,183,385	34,396,998	31,393,432
Foreign:				
Tiws S.L España.	63,077,019	852,401	39,088,952	13,697,798
Telefónica Digital España S.A.	6,273,221	2,721,336	–	130,105
Telefónica Venezolana, C.A..	3,089,472	14,281,364	371,206	1,063,119
Otecel S.A.	2,068,993	3,898,638	576,536	670,269
Telefonica Brasil S.A.	999,204	1,033,648	655,723	730,259
Telefónica Móviles Argentina S.A.	449,814	649,557	385,860	337,791
Telefónica Móviles Chile	365,063	1,131,904	321,119	458,258
Telefónica USA Inc.	325,724	386,401	7,380,550	654,376
Telefónica Móviles Panamá S.A.	236,837	1,111,022	628,092	716,430
Telefonica Digital Limited	210,019	–	–	–
Telefónica de España	191,256	2,747,260	134,944	1,374,041
Telefónica del Perú S.A.	183,813	(86,263)	–	402,830
Telefonica Móviles Perú	121,830	359,745	602,780	945,138
Telefónica Móviles México	116,039	229,007	1,059,198	1,019,956
Telefónica de Costa Rica TC S.A.	83,182	56,070	151,404	228,466
Telefónica de Argentina S.A.	58,728	365,477	139,964	355,796
Telefónica Móviles del Uruguay S.A.	40,928	57,626	42,578	43,615
Telefónica 02 Germany GMBH CO	17,785	62,656	94,843	234,965
TLD Puerto Rico	16,718	200,235	12,718	60,474
Telefónica Móviles de el Salvador S.A. de C.V.	14,689	45,576	109,954	99,581
Grupo Telecomunicaciones Mexicana	17,686	19,172	–	441,008
Telefónica Móviles Guatemala S.A.	10,905	55,274	81,702	174,361
Telefónica Celular de Nicaragua, S.A.	7,364	11,114	25,675	27,102
Telefónica 02 Eslovaquia SRO	6,309	–	–	8,352
E-plus Mobilfunk GMBH & CO	–	–	6,854	–
02 Communication (Ireland) Ltd.	–	17,211	7,287	1,815

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

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

##### b). Related Parties (continued)

	Revenues		Costs and Expenses	
	2014	2013	2014	2013
Telefónica 02 UK LTD	-	422,589	189,812	(152,243)
Telefonica Larga Distancia Chile	-	170,069	(128,345)	633,259
Telefónica Móviles España SAU	-	2,410,914	1,647,133	3,439,712
Telefónica Global Technology SAU	-	-	32,426,834	29,290,307
Media Networks Latin América S.A.C	-	-	16,573,879	13,743,105
Telefónica Compras Electrónicas, S.A.	-	-	6,097,134	5,401,467
Tiws América	-	-	4,053,934	4,053,936
Telefónica On The Spot Services SAU	-	-	582,087	724,802
TGS Compartidos España SAU	-	-	546,289	-
Telefónica Ingeniería Seguridad	-	-	509,772	403,766
Telefonica Global Roaming GMBH	-	-	296,880	-
Telefonica Empresas Chile S.A.	-	-	268,113	-
Televisión Federal S.A.	-	-	55,454	62,413
Telefónica Global Service GMBH	-	-	10,066	39,538
Telefónica Learning Service S.L.U.	1,200	-	-	188,534
Telefónica Gestion Servicios Compartidos Chile	33,577	-	-	-
Telefónica Chile Servicios Corporativos	-	94,689	-	-
Pegaso PCS SA de CV	-	48,294	-	-
Telefónica Centroamérica SA	-	32,695	-	-
T- mAS	-	-	-	2,964,825
T-Gestiona Chile	-	-	-	281,808
Telefónica Czech Republic A.S.	-	8,430	-	16,239
Telefónica Investigación y Desarrollo	-	-	-	(42,000)
Total foreign	78,017,375	33,394,111	115,006,981	84,925,373
Total related parties	\$ 93,840,076	\$ 47,577,496	\$ 149,403,979	\$ 116,318,805

##### c) Associated Companies

The following is a summary as of December 31 of the Company's revenues, costs and expenses and accounting notes of the transactions carried out during the period from January 1<sup>st</sup> to December 31 with shareholders, related parties and associated companies:

	Revenues		Costs and Expenses	
	2014	2013	2014	2013
Domestic:				
Telefónica Factoring Colombia S.A.	\$ 176,647	\$ 188,083	\$ -	\$ -
Foreign:				
Telecom Italia Sparkle S.P.A.	4,060,547	2,991,816	-	-
Tim Celular S.A.	407,026	400,678	152,625	312,956
Telecom Italia S.P.A.	(1,090,519)	264,801	413,693	2,340,635
Total foreign	3,377,054	3,657,295	566,318	2,653,591
Total associated companies	\$ 3,553,701	\$ 3,845,378	\$ 566,318	\$ 2,653,591

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 29. Contingencies

##### Legal processes

The Company rates legal contingencies in accordance with the probable, eventual or remote probability of loss, and for quantification purposes, it determines the amounts to be accrued based on the reports of its legal advisors. At December 31, the ongoing processes and which were reported as probable contingencies are presented as follows:

Type of Action	2014	2013
Short-term (Note 16)		
Petitions, complaints and claims	\$ 21,935,267	\$ 11,992,956
Labor	3,733,974	-
	<u>25,669,241</u>	<u>11,992,956</u>
Long-term (Note 16)		
Civil ordinary processes	5,181,587	408,236
Administrative investigation (1)	4,801,032	1,096,177
Labor	3,650,107	2,703,053
Tax processes (2)	2,971,661	2,769,202
Executive processes	1,281,536	746,858
Direct compliance repair	482,393	482,393
Administrative sanctioning	294,548	201,532
Incentives and class actions	1,000	1,000
Unfair competition	-	4,884
	<u>18,663,864</u>	<u>8,413,335</u>
	<u>\$ 44,333,105</u>	<u>\$ 20,406,291</u>

(1) Processes with several municipalities for liquidation of public lighting tax.

(2) Processes for alleged breach of regulatory standards.

#### 30. Commitments

##### Materials Contracts

Taking into account the figures' materiality regarding hiring, those existing contracts and those to be executed at December 31, 2014, are detailed as follows, considered as of most significance:

Contractor	Contract Object	Termination Date	Contract Value
ATC Sitios de Colombia S.A.S.	(i) Granting the rights of use and enjoyment of the towers to ATC and (ii) Granting, for purposes of commodate or loan of use of the areas for a 13-year period.	2023-06-30	\$166,692,094
FSCR Ingeniería LTDA.	Implementation of comprehensive maintenance for activities associated with the loop plant and customer loop.	2016-12-31	166,282,015

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 30. Commitments (continued)

##### Materials Contracts (continued)

Contractor	Contract Object	Termination Date	Contract Value
ICOTEC Colombia S.A.S.	Execution of all construction and installation activities and maintenance of the loop plant's networks and all associated activities in the area 5.	2016-12-31	146,855,967
Seguridad Atlas LTDA.	Providing private security services for goods, infrastructure and facilities used by the contractor.	2015-10-31	144,199,881
Cobra - Actividades de Instalación	Development of comprehensive maintenance for activities associated to the outside plant and customer loop.	2016-12-31	138,325,800
ATC Sitios de Colombia SAS	Space rental at sites.	2023-06-30	135,322,186
ZTE COLOMBIA S.A.S.	Permanently provide comprehensive level 1 maintenance service in the telecommunications network of the contracting party.	2016-07-31	130,225,318
Publicis Groupe Media S.A.	Provide, media comprehensive services, which comprises (i) conducting research studies and media analysis; (ii) global negotiation with media; (iii) technical advice of the media plan; and (iv) design, implementation and monitoring of the Contractor's advertising campaigns.	2015-03-31	124,473,449
Cables de Energia y de Telecomunicaciones S.A. Centelsa	Provide gray, self-supporting, filling copper cable for interior use.	2015-12-31	118,710,860
Energia Integral Andina S.A.	Rendering portable services by Energia Integral Andina S.A. to subscribers, through the submarine cable system of optical fiber known as San Andres Islas- Tolu, Colombia	2026-10-27	108,703,368
Telefónica International Wholesales Services Colombia S.A. – Tiws Colombia	Corporate network link lease of Grupo Telefónica - Red Bala.	Undetermined	108,440,053
Ericsson de Colombia S.A.	Provide carrier expansions on nodes and provide planning and design services for each type of system.	2015-01-31	102,016,734
Eficacia S.A.	Provision of personalized comprehensive services at the different offices of attention or experience centers nationwide.	2016-05-31	101,643,018
Ufinet Colombia S.A.	Indefeasible right of use (IRU) of eight fiber optic strands, and the supply and preventive maintenance of fiber optics.	2032-11-14	92,972,757
Cisco Systems INC.	Procurement agreement for Cisco client's goods and services.	2015-07-11	84,888,671
FSCR Ingeniería LTDA.	Implementation of comprehensive maintenance for activities associated with the loop plant and customer loop.	2016-12-31	82,874,608
Operacion y Gestion integral – Opegin LTDA.	It is the continued performance by the contractor of service called customer loop	2016-12-31	66,160,330



## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 30. Commitments (continued)

##### Materials Contracts (continued)

Contractor	Contract Object	Termination Date	Contract Value
Ericsson de Colombia S.A.	Provide operation and maintenance services of mobile telephone base stations and transmission nodes.	2015-12-31	64,256,603
New Skies Satellites nv	Rent of special C band segment.	2020-08-31	63,995,200
Media Networks Latin America S.A.C.	Data processing service and satellite service.	Undetermined	63,536,856
Ericsson de Colombia S.A.	Supply and install, with the periodicity in place and in the amount Telefónica Móviles indicates, of the nodes required for the implementation of the 3G-utran network.	2015-07-31	58,188,326
Huawei Technologies Colombia S.A.S.	Purchase of tablets and support post-sale, warranty and repair services.	2017-06-30	55,639,732
Celistics Colombia Ltda	Third Party Logistic Services.	2017-09-01	54,912,083
Azteca Comunicaciones Colombia S.A.S.	Use of the IRU on four Wires of fiber optic, operation and maintenance supply.	2035-01-31	54,669,307
Atento Colombia S.A.	Provide contact center services for all operations detailed in "operations annex".	2015-02-28	51,831,359
Accenture Ltda	Development and maintenance services of the applications that correspond to the billing block, at local and regional level, in the form of application management (application management - am).	2015-03-31	50,192,961
Digitex Internacional Ltda	Provide contact center services in all operations described in the "operations annex"	2015-02-28	49,622,158
Motorola Solutions Colombia Ltda	Perform supply, re-tuning, installation, adjustment, integration, commissioning, training, and provide associated guarantees of several radio equipment belonging to the National Police network.	2014-03-20	44,997,132
Coriant Colombia S.A.S.	Supply and installation of the goods required for setting transportation requirements on the metropolitan DWDM transport network, expansion and migration.	2015-06-30	44,731,294
Hewlett Packard Colombia Ltda	Provide computer equipment and printers periodically and POS (point-of-sale solutions)	2015-07-31	43,835,274
Ed Asia Pte Ltda	Supply of Decos SD Ref STB ED-S8.	2015-08-31	43,297,269
Amdocs Operatios and Development Chile S.A.	Provide technical support services (basic, preventive and developmental and technological evolution of SW applications, SCL support.	2014-12-31	41,391,795

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 30. Commitments (continued)

##### Materials Contracts (continued)

Contractor	Contract Object	Termination Date	Contract Value
Telefónica International Wholesale Services Colombia SA - Tiws Colombia	Cable to operate and maintain submarine cables sam-1 acquired from TIWS.	2031-12-31	38,449,344
Research in Motion LTDA.	Supply of licenses and access costs for the months from January to December 2014.	2015-01-20	35,979,034
Huawei Technologies Colombia S.A.S.	Provide equipment and services for the lawsuit of Group 2 and 3 to begin the operation of red DWDM applications, as well as installation services of hardware and enlargement card installations SDH.	2015-12-31	35,536,410
Inversiones Coopservimos S.A.	Performance of all construction, installation and maintenance activities of outside plant networks.	2016-12-31	35,103,670
Celistics Holding SL.	Provision of mobile terminals Q4 2014.	2014-12-31	35,034,695
Internexa S.A. E.S.P.	Right to provide the capacity of transmitting information.	2026-03-31	35,016,891
Cel Consumer Electronics Logistics S.A.	Third party logistics operator for cdr equipment procured abroad.	Undetermined	34,433,595
Centro Interactivo De Crm S.A.- Interactivo Contact Center S.A.	Provide the multichannel customer service via telephone call center, web fax, chat, email, SMS (short message services) to back office customers (in and/ or out bound campaigns)	2015-02-28	34,135,909
Huawei Technologies Colombia S.A.S.	Provision of operation and maintenance services of cell phone base stations and transmission nodes in the entire geographical area of mobile telephone operation.	2015-12-31	33,779,591
MI Colombia S.A.	Provide, through its call center, support services in mobile phone sales	2015-02-28	32,108,109
Huawei Technologies Colombia S.A.S.	Supply of goods and services for the expansion of 17.216 ADSL 2 ports, IPDSLAM equipment and 5.168 ports on FTTC cabinets.	2015-07-31	30,987,301
Alcatel Lucent de Colombia S.A.	Supply of Alcatel Lucent 7750 SR-12 equipment and cards for capacity expansion.	2015-06-30	30,558,568
Accenture LTDA.	Provide development and maintenance of applications for the post sale of Block ii.	2017-03-30	30,055,236
Tempel Colombia Ltda	Provide power accumulator equipment, batteries and installation, clearing and transportation services.	2014-12-31	29,808,520
Avaya Comunicación de Colombia S.A.	Perform design and configuration, deployment, maintenance and technical support of integral solutions.	2020-06-30	29,498,780
Oracle Colombia LTDA	Review of Oracle Colombia needs ula oracle capex	2014-12-31	28,768,695
Econtact Col S.A.S.	Supply the contact center services for all operations.	2015-02-28	28,560,496

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 30. Commitments (continued)

##### Materials Contracts (continued)

Contractor	Contract Object	Termination Date	Contract Value
Everis Colombia LTDA	Software services of the i block by the operators of the Telefónica Group in Latin America.	2017-03-30	28,157,196
Oesia Networks SI Sucursal Colombia	Supply customized technical management services for customer systems, networks and telecommunications products and services.	2016-10-31	27,157,978
Huawei Technologies Colombia S.A.S.	MetroEthernet equipment (GWC, GWD and GWT) supply for connecting and extending the Backhaul network.	2015-06-30	27,144,123
Telesat Canada	Rent of satellite capacity.	2017-03-31	26,788,781
Siae Microelettronica LTDA	Supply of services, equipment and materials for installation and siae radio links expansion for mobile data, Ecopetrol projects, replacement and expansion.	2014-12-31	26,756,681
Huawei Technologies Colombia S.A.S.	Supply the goods and software licensing required for installation, testing and integration to put in operation and support for an access system to a Long (LTE) network in its first phase 1.	2015-01-31	25,469,493
Nagravision S.A.	Supply of Smartcards for satellite tv service.	2014-12-31	25,028,461
Samsung Electronics Colombia S.A.	Supply terminals Q4 2014.	2014-12-31	24,370,148
Objetivos y Servicios de Valor Añadido	Provide antennas and Lnb's for satellite dishes and service provision and installation of Hardware, training and technical support on goods.	2015-12-31	23,191,955
Energía Empresarial de la Costa S.A. ESP	Unregulated power supply nationwide.	2014-12-31	22,436,722
Apple Colombia S.A.S.	Supply mobile devices for Q4 2014.	2014-12-31	22,296,100
IBM de Colombia & Cia S.C.A.	Support services and software maintenance, licensing plus subscription.	2015-12-31	21,500,330
Alma Technologies S.A.S.	Platform supply to optimize mobile network resources through content adaptation.	2015-11-01	21,383,826
Alcatel Lucent de Colombia S.A.	Equipment supply, installation, migration and expansion and technical support of goods and services in order to meet MetroEthernet technology expansion.	2015-06-30	21,368,512
Agencia de viajes y turismo AVIATUR	Travel agency services in the terms set out in the invitation tender	2016-06-30	21,214,386
Suppla SA	Provide logistics operator services.	2017-05-30	20,736,058
IBM de Colombia & Cia S.C.A.	Blocks 2 and 3 for operation services of the data processing centers.	2016-06-30	20,704,391

## **Colombia Telecomunicaciones S.A. ESP**

### **Notes to Financial Statements (continued)**

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

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

The agreement with the greatest impact on the financial statements is the Exploitation Contract whereby the payment of the compensation to PARAPAT is made through for the right to use goods, assets and rights which are the subject of the Exploitation Contract that were identified as part of the provision of services by Colombia Telecomunicaciones S.A. E.S.P and the extinct National Telecommunications Company and Telesociadas earmarked for the provision of telecommunications services and Colombia Telecomunicaciones SA ESP had identified as pertaining to the service in the opportunity the Exploitation Contract determined for it and those goods, assets and rights to Colombia Telecomunicaciones SA ESP transferred from time to time to PARAPAT.

In accordance with Exploitation Contract, the goods, assets and rights, which are the object of the Exploitation Contract that had then been identified as related with opportunity that the contract established for them, constitute all the goods object of the Exploitation Contract, which as mentioned above, will be transferred to Colombia Telecomunicaciones SA ESP once the last compensation installment is paid. The Company has the right to use such assets in a way that is profitable, in a professional and independent manner. The use of the goods under the Exploitation Contract may be used directly or indirectly with the help of third parties, using any planned or authorized contract by Law

Colombia Telecomunicaciones S.A. ESP, recorded the consideration as other non-operating expenses, pursuant to Resolution 517 of December 21 of 2004, issued by the General Accounting Office. As of May 1, 2006, the consideration is recorded in the cost of sales and service provision, taking into account what is set forth in the Resolution No. 33635 of the SSPD, of December 28 of 2005.

##### **Brand Fee Agreement**

This corresponds to the value canceled by the license and use of the Movistar brand to Telefónica S.A., calculated on the basis of mobile service revenues.

##### **Operating IRU Lease**

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"). 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.

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 30. Commitments (continued)

##### Operating IRU Lease (continued)

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%).
4. The Company does not exercise (direct or indirect) control 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 Rights of Use and Enjoyment and Other Agreements - Stage I

At cut-off of August 31, 2010, the following contracts were entered into with the ATC Sitios de Colombia SAS (hereinafter "ATC") and which objectives were:

###### *a) Granting rights of use and enjoyment and Other Agreements.*

The contract's object includes: (i) Colombia Telecomunicaciones SA ESP, grants to ATC the rights of use and enjoyment of the 458 Sites included in the Annex to this contract and is committed to transfer its property, once Colombia Telecomunicaciones SA ESP receives from PARAPAT the transfer of active goods and rights which are the object of the Exploitation Contract and (ii) grants under commodatum or loan the use of the Areas for a 13 year term, extendable in the terms established in the Commodatum 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 SA ESP 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 SA ESP 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 such contract amounted to \$124,140,900.

###### *c) Commodatum contract over Land*

By means of this contract, Colombia Telecomunicaciones S.A. ESP grants the right of use or commodatum of the areas (land) detailed in Annex A of this contract where the rights to use the towers were granted for the right of use and enjoyment in the Master contract, without purchase option or obligation to restitute at the end of the contract's term. This obligates ATC to restitute the property. The term of this contract is 13 years as of signature of the contracts, initially extendable for two more years.

## Colombia Telecomunicaciones S.A. ESP

### Notes to Financial Statements (continued)

#### 30. Commitments (continued)

##### Granting Rights of Use and Enjoyment and Other Agreements - Stage I (continued)

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. On August 3, 2012, a communication was remitted to ATC Sitios de Colombia SAS, notifying that the pledge contract was in force until July 6, 2012 as defined in the contracts.

##### Granting Rights of Use and Enjoyment and Other Agreements - Stage II

At cut-off of June 28, 2011 the following contracts were entered into with ATC Sitios de Colombia SAS (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.

###### *a) Granting of rights of use and enjoyment and Other Agreements*

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

###### *b) Space Leasing Contract in Towers.*

By means of this contract ATC will give under lease a space in towers for the use of Colombia Telecomunicaciones S.A. ESP and/or Grupo Telefónica or any other third party in accordance with a current contract. Colombia Telecomunicaciones S.A. ESP 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 periods of 2 additional years.

###### *c) Commodatum contract over Land.*

By means of this contract, Colombia Telecomunicaciones S.A. ESP grants the right of use or commodatum of areas (land) described in Annex A of this contract where the towers sold, object of use and enjoyment under the Master agreement are stated, without purchase option or obligation to restate 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. ESP

### Notes to Financial Statements (continued)

#### 30. Commitments (continued)

##### Mobile Virtual Network Operator Service Agreement

Colombia Telecomunicaciones S.A. ESP and Virgin Mobile have a Mobile Virtual Operator Service Agreement whereby Colombia Telecomunicaciones S.A. ESP sells voice communication services to Virgin Mobile, SMS messaging and data, so that Virgin Mobile can trade these in the Colombian retail market, acting in its own name under the form of services resale.

The Contract Term was agreed for six years, with automatic renewals after the previous period completion, unless the parties properly communicate in advance their intention of not renewing the services provision. Under the Agreement, Colombia Telecomunicaciones S.A. ESP is generally responsible for maintaining and guaranteeing the networks' operation under the same conditions required by laws and regulations. Virgin Mobile assumes in general the responsibility for managing the business of providing mobile communication services in the retail market.

#### 31. Financial Indicators

The main financial indicators at December 31 are detailed as follows:

	<u>2014</u>	<u>2013</u>
<b>EBITDA (a)</b>		
Net profit (loss), net	\$ 11,314,252	\$ (262,012,731)
Plus:		
Depreciation and amortization	1,053,768,355	1,216,933,969
Financial expenses, net	363,777,374	332,829,648
Income tax	(33,842,819)	5,420,352
<b>EBITDA</b>	<u>1,395,017,162</u>	<u>1,293,171,238</u>
Plus:		
PARAPAT Payment Obligations	292,452,107	148,463,768
<b>Adjusted EBITDA (b)</b>	<u>\$ 1,687,469,269</u>	<u>\$ 1,441,635,006</u>
EBITDA margin (c)	30,07%	30,78%
Adjusted EBITDA margin (d)	<u>36,37%</u>	<u>34,32%</u>

(a) EBITDA means: Earnings Before Interest, Taxes, Depreciation and Amortization.

(b) Adjusted EBITDA: Corresponds to EBITDA plus PARAPAT Payment Obligations.

(c) Represents EBITDA divided in operating revenues.

(d) Represents adjusted EBITDA divided in operating revenues.

**Colombia Telecomunicaciones S.A. ESP**  
**Notes to Financial Statements (continued)**

**31. Financial Indicators (continued)**

**Liquidity Indexes**

	<u>2014</u>	<u>2013</u>
a. Current ratios		
$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	0.56	0.44
b. Acid test		
$\frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$	0.50	0.40
c. Net Working Capital (in millions)		
Current Assets – Current Liabilities	(815,520)	(1,123,436)

**Borrowing Indexes**

a. Total borrowing		
$\frac{\text{Total Liabilities}}{\text{Total Assets}}$	86%	83%
b. Short-term borrowing		
$\frac{\text{Current Liabilities}}{\text{Total Liabilities}}$	31%	37%
c. Hedge Financial expenses		
$\frac{\text{EBITDA}}{\text{Financial expenses}}$	3.83v	3.89v
d. Debt over EBITDA		
$\frac{\text{Net debt}}{\text{EBITDA}}$	2.72v	2.54v



**Colombia Telecomunicaciones S.A. ESP**  
**Notes to Financial Statements (continued)**

**31. Financial Indicators (continued)**

**Activity Indexes**

	<u>2014</u>	<u>2013</u>
a. Accounts receivable turnover (days)		
$\frac{\text{Net Operating Income}}{\text{Average of Operating Accounts Receivable}}$	42	44
b. Inventories turnover (days)		
$\frac{\text{Selling Costs}}{\text{Average Inventories}}$	67	55
c. Turnover of fixed assets		
$\frac{\text{Net Operating Income}}{\text{Average Fixed Assets}}$	1.45 v	1.34 v
d. Operating assets turnover		
$\frac{\text{Net Operating Income}}{\text{Total Average Assets}}$	0.69 v	0.63 v