OFFERING MEMORANDUM DATED APRIL 24, 2015

Colombia Telecomunicaciones S.A. ESP

U.S.$500.0 Million Subordinated Perpetual Notes

We are offering U.S.$500.0 million of our subordinated perpetual notes, or the notes. The notes have no fixed maturity date. However, at our option, we may redeem the notes, in whole but not in part, on March 30, 2020, or the First Call Date, and any Interest Payment Date (as defined below) thereafter, at their aggregate principal amount, together with any accrued and unpaid interest to, but excluding, the First Call Date or the relevant Interest Payment Date and any arrears of interest. We may also redeem the notes, in whole but not in part, upon the occurrence of certain tax, accounting, ratings and certain other events at the applicable redemption prices as set forth in this offering memorandum. Subject to our right to defer payment, interest on the notes will be payable semi-annually in arrears on March 30 and September 30 of each year, each an Interest Payment Date, beginning on September 30, 2015.

As more fully described in this offering memorandum, we may defer interest payments on the notes for any period of time; provided that any such deferred payments will themselves bear interest at the same rate as the principal amount of the notes and will become due and payable on the Mandatory Payment Dates (as defined under "Description of the Notes—Payment of Deferred Interest").

The notes will bear interest on their principal amount from (and including) March 30, 2015, or the Issue Date, to, but excluding, the First Call Date at a rate of 8.50% per annum. Thereafter, from and including the First Call Date to, but excluding, the redemption date, if any, for each Reset Period (as defined under "Description of the Notes—Principal and Interest Payments"), the notes will bear interest at a rate equal to the relevant Fiver Year Swap Rate (as defined under "Description of the Notes—Principal and Interest Payments") expressed as a percentage, plus a margin of 6.958%, or the Initial Margin, plus (a) in respect of Reset Periods commencing on or after the First Call Date: 0.25%; plus, (b) in respect of Reset Periods commencing on or after March 30, 2035: a further 2.75% (unless our S&P credit rating shall have been upgraded to investment grade and is effective at March 30, 2035, then such 2.75% increase shall only become effective for Reset Periods commencing on or after March 30, 2040).

The notes will be our direct, unconditional, unsecured and subordinated obligations and will rank (i) junior to all of our existing and future Unsubordinated Indebtedness (as defined under "Description of the Notes—Ranking of the Notes"), (ii) pari passu with all other future Subordinated Indebtedness (as defined "Description of the Notes—Ranking of the Notes"), and (iii) senior to all existing and future classes of our Share Capital (as defined "Description of the Notes—Ranking of the Notes"). We do not currently have any subsidiaries and the notes will not be guaranteed by any subsidiaries we may have in the future. We currently have no securities outstanding that rank junior to the notes other than our Share Capital. Claims of creditors of any subsidiaries, to the extent we have any in the future, including trade creditors and bank and other lenders, will have priority over the holders of the notes in claims to assets of our subsidiaries.

Application has been made to list the notes on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market of such exchange. This offering memorandum has been prepared for the purpose of listing on the Euro MTF market of the Luxembourg Stock Exchange and constitutes a prospectus for purposes of Luxembourg law on prospectus securities dated July 10, 2005, as amended.

Investing in the notes involves risk. See "Risk Factors" beginning on page 21.

Issue Price:100.000% plus accrued interest, if any, from March 30, 2015.

The notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended, or the Securities Act, or the securities laws of any other jurisdiction. Accordingly, the notes may not be offered or sold within the U.S. or to U.S. persons, except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A under the Securities Act, or Rule 144A, and to certain non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act, or Regulation S. Prospective purchasers that are qualified institutional buyers are hereby notified that the seller may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For more information on transfers of the notes, see "Plan of Distribution" and "Transfer Restrictions."

The notes may not be offered, sold or negotiated in the Republic of Colombia, except under circumstances which do not constitute a public offering of securities under applicable Colombian securities laws and regulations. Furthermore, foreign financial entities must abide by the terms of Decree 2555 of 2010 to offer the notes privately to their Colombian clients.

The notes are expected to be delivered in book-entry form through the facilities of The Depository Trust Company, or DTC, and its direct and indirect participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System, or Euroclear, and Clearstream Banking, *société anonyme*, or Clearstream, on or about March 30, 2015.

Joint Structuring Advisors

BBVA **HSBC**

Joint Bookrunners

BBVA **HSBC** **Citigroup** **Credit Suisse**

TABLE OF CONTENTS

Unless otherwise indicated or the context otherwise requires:

- all references to "we," "us," "our," "our company," the "issuer" and "ourselves" are to Colombia Telecomunicaciones S.A. ESP;
- all references to "CT" are to Colombia Telecomunicaciones S.A. ESP prior to the consummation of the TEMCO Merger;
- all references to "TEMCO" are to Telefónica Móviles Colombia S.A.;
- all references to the "TEMCO Merger" are to the merger of TEMCO with and into CT, with CT as the surviving entity, which was executed through public deed No. 1751, dated June 29, 2012, and registered before the Chamber of Commerce of Bogotá on July 6, 2012;
- all references to "Telefónica" are to Telefónica S.A.;
- all references to "Telefónica Internacional" are to Telefónica Internacional S.A.U.;
- all references to "Telefónica group" are to Telefónica and its affiliates;
- all references to the "PARAPAT Agreement" are to the *Contrato de Explotación de Bienes, Activos y Derechos*, dated as of August 13, 2003, as amended, modified and supplemented from time to time, by and between the *Patrimonio Autónomo Receptor de Activos de la Empresa Nacional de Telecomunicaciones en Liquidación y Las Empresas Teleasociadas en Liquidación–PARAPAT* and Colombia Telecomunicaciones S.A. ESP;
- all references to the "PARAPAT Payment Obligations" are to the annual payments we are required to make pursuant to the PARAPAT Agreement in consideration for the exclusive right to use and operate the telecommunications properties and assets of *Empresa Nacional de Telecomunicaciones–TELECOM* and certain of its affiliated companies; and

- all references to "Colombia" or the "Republic of Colombia" are to the Republic of Colombia.

This offering memorandum has been prepared by us solely for use in connection with the proposed offering of the notes described in this offering memorandum. BBVA Securities Inc., HSBC Securities (USA) Inc., Citigroup Global Markets Inc. and Credit Suisse Securities (USA) LLC will act as initial purchasers with respect to the offering of the notes. This offering memorandum does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire notes. You are authorized to use this offering memorandum solely for the purpose of considering the purchase of our notes and not for any other purpose.

We accept responsibility for the information prepared by us contained in this Offering Memorandum, and certify that, to the best of our knowledge, except as otherwise noted, (i) such information contained in this Offering Memorandum is accurate and in accordance with the facts as of the date on the cover page of this document, and (ii) such information does not include any material omission or misstatement that would render the information contained herein misleading or otherwise materially affect the import of this Offering Memorandum.

We have not authorized anyone to provide any information other than the information contained in this offering memorandum. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you.

Any questions regarding the information in this Offering Memorandum may be directed to the Chief Financial Officer of the Company by phone at +57(1) 705 0100 or by mail at Colombia Telecomunicaciones S.A. ESP, Attention: Chief Financial Officer, Transversal 60, No. 114 A-55 Edificio Corporativo, Bogotá D.C., Colombia.

Prospective investors should not construe the contents of this offering memorandum, or any prior or subsequent communications from us or other professionals associated with the offering, as legal, tax or business advice. Each prospective investor should consult its own attorney and business advisor as to the legal, business, tax and related matters concerning this investment. The initial purchasers and their respective affiliates are not acting as your advisors or agents. Prior to entering into any transaction, you should determine, without reliance upon the initial purchasers or their affiliates, the economic risks and merits, as well as the legal, tax and accounting characteristics and consequences of the transaction, and independently determine that you are able to assume these risks. In this regard, by acceptance of these materials, you acknowledge that you have been advised that (i) the initial purchasers and their respective affiliates are not in the business of providing legal, tax or accounting advice, (ii) you understand that there may be legal, tax or accounting risks associated with the transaction, (iii) you should receive legal, tax and accounting and other advice from advisors with appropriate expertise to assess relevant risks, and to determine whether it is legally permitted to purchase the securities under applicable legal investment or similar laws or regulations and (iv) you should apprise senior management in your organization as to the legal, tax and accounting advice (and, if applicable, risks) associated with this transaction.

The distribution of this offering memorandum and the offering and sale of the notes in certain jurisdictions may be restricted by law. We and the initial purchasers require persons into whose possession this offering memorandum comes to inform themselves about and to observe any such restrictions. This offering memorandum does not constitute an offer of, or an invitation to purchase, any of the notes in any jurisdiction in which such offer or sale would be unlawful. No one has taken any action that would permit a public offering of the notes to occur in any jurisdiction.

Neither we nor the initial purchasers are making an offer to sell the notes in any jurisdiction except where such an offer or sale is permitted. You must comply with all applicable laws and regulations in force in your jurisdiction and you must obtain any consent, approval or permission required by you for the purchase, offer or sale of the notes under the laws and regulations in force in your jurisdiction to which you are subject or in which you make such purchase, offer or sale, and neither we nor the initial purchasers will have any responsibility therefor.

We have furnished the information in this offering memorandum. You acknowledge and agree that the initial purchasers make no representation or warranty, express or implied, as to the accuracy or completeness of such information, and nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by the initial purchasers. This offering memorandum contains summaries believed to be accurate with respect to certain documents, but reference is made to the actual documents for complete information. All such summaries are qualified in their entirety by such reference.

We are relying upon an exemption from registration under the Securities Act for an offer and sale of securities which do not involve a public offering. By purchasing notes, you will be deemed to have made certain acknowledgments, representations and agreements as set forth under “Transfer Restrictions” in this offering memorandum. The notes are subject to restrictions on transfer and resale and may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws. As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. See “Plan of Distribution” and “Transfer Restrictions.”

Neither the United States Securities and Exchange Commission, or the SEC, nor any state securities commission has approved or disapproved of these securities or determined if this offering memorandum is truthful or complete. Any representation to the contrary is a criminal offense.

The notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and the applicable state securities laws pursuant to registration or exemption therefrom. Please refer to the sections in this offering memorandum entitled “Plan of Distribution” and “Transfer Restrictions.”

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE IMPLIES THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT ANY EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE REGARDING COLOMBIAN SECURITIES LAW

The notes have not been and will not be registered in the Colombian National Registry of Securities and Issuers (*Registro Nacional de Valores y Emisores*) maintained by the Colombian Superintendency of Finance (*Superintendencia Financiera de Colombia*, or the SFC). The notes may not be offered, sold or negotiated in Colombia, except under circumstances which do not constitute a public offering of securities under applicable Colombian securities laws and regulations. Furthermore, foreign financial entities must abide by the terms of Decree 2555 of 2010 to offer the notes privately to their Colombian clients.

ENFORCEMENT OF CIVIL LIABILITIES

We are a public utility services company (*empresa de servicios públicos*, or ESP) organized as a stock corporation (*sociedad anónima*) under the laws of Colombia. Most of our directors and all of our executive officers named in this offering memorandum are residents of Colombia. All of our assets are located outside the United States. Although we will appoint an agent for service of process in the United States, it may be difficult for you to effect service of process on, or to enforce judgments of U.S. courts against, us or our directors and officers based on the civil liability provisions under the laws of jurisdictions other than Colombia, including the U.S. federal and state securities laws.

We have been advised by our Colombian counsel, Brigard & Urrutia Abogados S.A.S., that the Colombian Supreme Court determines whether to enforce a U.S. judgment predicated on the U.S. laws through a procedural system known under Colombian law as *exequatur*. The Colombian Supreme Court will enforce a foreign judgment, without reconsideration of the merits, only if the judgment satisfies the requirements of Articles 693 to 695 of Colombia's Code of Civil Procedure (*Código de Procedimiento Civil*), in the process of being replaced by Articles 605 to 607 of Colombia's General Procedure Code (*Código General del Proceso*, or GPC) pursuant to Article 627, paragraph 6, of Colombia's GPC, and as determined by the Colombian Superior Council of the Judiciary (*Consejo Superior de la Judicatura*), which provide that the foreign judgment will be enforced only if:

- a treaty exists between Colombia and the country where the judgment was granted related to the recognition and enforcement of foreign judgments under which judgments issued by Colombian courts can be recognized in the country where the judgment was granted or, in the absence of such treaty, there is reciprocity in the recognition of foreign judgments between the courts of the relevant jurisdiction and the courts of Colombia;

- the foreign judgment does not relate to "*in rem rights*" vested in assets that were located in Colombia at the time the suit was filed;

- the foreign judgment does not contravene or conflict with Colombian laws relating to public order other than those governing judicial procedures;

- the foreign judgment, in accordance with the laws of the country where it was rendered, is final and is not subject to appeal;

- a duly certified and authenticated copy of the foreign judgment (along with an official translation into Spanish, if the judgment is issued in a foreign language) has been presented to the competent court in Colombia, provided, however, that Article 606 of Colombia's GPC only requires a legalized copy of the foreign judgment;

- the foreign judgment does not refer to any matter upon which Colombian courts have exclusive jurisdiction;

- no proceeding is pending in Colombia with respect to the same cause of action, and no final judgment has been awarded in any proceeding in Colombia on the same subject matter and between the same parties;

- in the proceeding commenced in the foreign court that issued the judgment, the defendant was served in accordance with the law of such jurisdiction and in a manner reasonably designated to give the defendant an opportunity to defend against the action; and

- the legal requirements pertaining to the corresponding *exequatur* proceedings are satisfied.

The United States and Colombia do not have a bilateral treaty providing for automatic reciprocal recognition and enforcement of judgments in civil and commercial matters. The Colombian Supreme Court has accepted that reciprocity exists when it has been proven that either a U.S. court has enforced a Colombian judgment or that a U.S. court would enforce a foreign judgment, including a judgment issued by a Colombian court. In accordance with previous rulings of the Colombian Supreme Court, reciprocity may also be granted by treaty or by law. However, such enforceability decisions are considered by the Colombian Supreme Court on a case-by-case basis. Notwithstanding the foregoing, we cannot assure you that a Colombian court would enforce a U.S.-based judgment with respect to the notes based on U.S. securities laws. In addition, certain remedies available under provisions of the U.S. securities laws may not be admitted or enforced by Colombian courts if such remedies are deemed to be contrary to public policy in Colombia.

Proceedings before Colombian courts are conducted in Spanish. In such *exequatur* proceedings, each party may (i) request that evidence be collected in accordance with the requirements listed above, and (ii) file final allegations in support of such party's position before a judgment is rendered. Proceedings for enforcement of a money judgment by attachment or execution against any assets or property located in Colombia would be within the exclusive jurisdiction of Colombian courts.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements. Some of the matters discussed concerning our business operations and financial performance include forward-looking statements within the meaning of the Securities Act or the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act.

Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include words such as “expects,” “anticipates,” “intends,” “plans,” “could,” “intend,” “may,” “believes,” “should,” “will,” “would,” “estimates” and similar expressions are forward-looking statements. Although we believe that these forward-looking statements are based upon reasonable assumptions, these statements are subject to several risks and uncertainties and are made in light of information currently available to us.

Our forward-looking statements may be influenced by factors, including the following:

- political, economic and demographic developments in Colombia;
- changes in the legal and regulatory framework of the telecommunications sector in Colombia, including changes in the interpretation of the provisions of such legal and regulatory framework by Colombian courts;
- potential disruptions or failures of our network equipment, systems or services and our ability to manage, implement and monitor billing and operational support systems;
- changes in technology, including our ability to upgrade our networks to remain competitive and our ability to anticipate and react to frequent and significant technological changes;
- our ability to acquire subscribers and our disconnection rates, or churn rates;
- our ability to adapt our operations to changing technology and consumer preferences;
- the nature and extent of competition in the telecommunications industry in Colombia and the effect of competition on the rates we are able to charge for our services;
- volatility and fluctuations in demand for telecommunications services and the effect of such changes on the rates that we are able to charge for our services;
- changes in interconnection rates;
- capital market conditions, including the availability of credit and changes in interest rates;
- our ability to attribute and record on our balance sheet higher values for our net assets in connection with our implementation of International Financial Reporting Standards;
- our expectation to maintain, on terms acceptable to us, our network assets, licenses and concessions;
- our expectation of recording significant deferred tax assets on our balance sheet under IFRS and our ability to recognize a portion of such assets to offset our income tax expense;
- our level of capitalization, including the levels of our indebtedness and overall leverage;
- currency devaluations and foreign exchange fluctuations;
- potential effects of natural disasters, war or other hostilities;

- the outcome of litigation against us;
- delays in the development of our projects, changes to our investment plan for our telecommunications operations, due to changes in demand, our provider selection process, authorizations, expropriations, etc.;
- our ability to acquire additional radio spectrum capacity or successfully expand our existing mobile networks;
- actions of our shareholders;
- changes in commodity prices, labor, supply, fuel, utilities, distribution and other operating costs; and
- other factors identified or discussed under "Risk Factors."

Our forward-looking statements are not guarantees of future performance and our actual results or other developments may differ materially from the expectations expressed in the forward-looking statements. As for forward-looking statements that relate to future financial results and other projections, actual results may be different due to the inherent uncertainty of estimates, forecasts and projections. Because of these uncertainties, potential investors should not rely on these forward-looking statements.

Forward-looking statements speak only as of the date they are made, and neither we nor the initial purchasers undertake any obligation to update them in light of new information or future developments or to release publicly any revisions to these statements in order to reflect later events or circumstances or to reflect the occurrence of unanticipated events.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

General

All references herein to "*peso,*" "*pesos*" or "COP$" are to *pesos*, the official currency of Colombia. All references herein to "U.S. dollars," "dollars" or "U.S.$" are to U.S. dollars. On March 13, 2015, the exchange rate for *pesos* into U.S. dollars was COP$2,610.08 to U.S.$1.00, based on the exchange rate as reported by the Central Bank of Colombia (*Banco de la República de Colombia,* or the Central Bank). The exchange rate was COP$2,392.46 to U.S.$1.00 on December 31, 2014, COP$1,926.83 to U.S.$1.00 on December 31, 2013, and COP$1,768.23 to U.S.$1.00 on December 31, 2012, in each case, as reported by the Central Bank.

We maintain our books and records in *pesos*. Solely for the convenience of the reader, we have translated some amounts included in "Summary Financial and Other Information," "Capitalization," "Selected Financial and Other Information" and elsewhere in this offering memorandum from *pesos* into U.S. dollars using the exchange rate as reported by the Central Bank as of December 31, 2014 of COP$2,392.46 to U.S.$1.00. These convenience translations should not be considered representations that any such amounts have been, could have been or could be converted in the future into U.S. dollars at that or at any other exchange rate. The *peso*/U.S. dollar exchange rates fluctuate widely, and the exchange rates set forth above or elsewhere in this offering memorandum may not be indicative of future exchange rates. See "Foreign Exchange Controls and Exchange Rates" for information regarding exchange rates between the *peso* and the U.S. dollar since January 1, 2010.

Financial Statements

General

The historical financial information contained in this offering memorandum has been derived from the following financial statements, which are included elsewhere in this offering memorandum:

- our audited financial statements as of and for the years ended December 31, 2014 and 2013, together with the notes thereto, or our 2014 audited financial statements; and

- our audited financial statements as of and for the years ended December 31, 2013 and 2012, together with the notes thereto, or our 2013 audited financial statements.

We refer to our 2014 audited financial statements and our 2013 audited financial statements, collectively, as our audited financial statements.

We are the result of the merger of TEMCO with and into CT, for which the deed of merger was executed on June 29, 2012. See "Business—TEMCO Merger" in this offering memorandum. The first financial statements reflecting the combined financial results of CT and TEMCO are our audited 2012 financial statements, which are included elsewhere in this offering memorandum. Our audited financial information for the year ended December 31, 2012 gives effect to the TEMCO Merger as if it had occurred on January 1, 2012, but our and TEMCO's operations were actually combined only for the period following June 29, 2012. Accordingly, our audited financial statements for the year ended December 31, 2012 do not necessarily reflect our actual consolidated results of operations had the TEMCO Merger occurred as of January 1, 2012.

Accounting Principles

We have prepared the financial statements included in this offering memorandum in accordance with accounting practices adopted in Colombia, or Colombian GAAP, and the regulations of the Colombian Superintendency of Corporations (*Superintendencia de Sociedades*). Colombian GAAP, as applied in the preparation of our financial statements, differs in certain significant respects from International Financial Reporting Standards as issued by the International Accounting Standards Board, or IFRS. We have not prepared audited or unaudited financial statements under IFRS in connection with this offering. For a discussion of certain significant differences between Colombian GAAP and IFRS, see "—Effects of IFRS Adoption" and "Annex A—Summary of Certain Significant Differences Between Colombian GAAP and IFRS."

In July 2009, the Colombian Congress enacted Law 1314 of 2009, or Law 1314, which requires the gradual implementation in Colombia of internationally accepted standards for accounting, financial disclosure and internal controls. Subsequently, the Colombian Technical Council of Public Accounting (*Consejo Técnico de la Contaduría Pública*, or CTCP) released a guidance document, or the CTCP Guidance Document, which sets forth the types of Colombian companies required to adopt IFRS and the expected timetable for the implementation and adoption of IFRS in Colombia. Because Telefónica, our parent company, is required to prepare its financial statements under IFRS, we are also required to fully adopt IFRS in accordance with the CTCP Guidance Document.

In December 2012, the Ministry of Finance and Public Credit (*Ministerio de Hacienda y Crédito Público*, or MHCP) and the Colombian Ministry of Trade, Industry and Tourism (*Ministerio de Comercio, Industria y Turismo*, or MCIT), issued Decrees 2706 and 2784 of 2012, as amended by Decree 3023 of 2013 and Decree 2615 of 2014, which included provisions for the mandatory implementation of IFRS by companies required to do so pursuant to the CTCP Guidance Document. These decrees set forth a mandatory transition period beginning on January 1, 2014 and require that our first fully-IFRS compliant financial statements be those for the year ending December 31, 2015. Accordingly, we are required to adopt IFRS beginning on January 1, 2015. Therefore, our financial statements as of and for the year ending December 31, 2015, and for any interim period in 2015, will be prepared in accordance with IFRS.

However, Article 165 of Law 1607 of 2012, which adopted certain tax reforms, provides that solely for tax purposes, the accounting standards under Colombian GAAP will remain in effect during the four years following our adoption of IFRS in January 2015, in order to help measure the impact of IFRS on the tax regime for purposes of developing future tax legislation. In addition, Decree 2548 of 2014, enacted to facilitate compliance with this requirement, requires us to prepare our financial statements in accordance with IFRS while also maintaining additional accounting records for tax purposes that are prepared in accordance with Colombian GAAP between January 1, 2015 and December 31, 2018. We understand that additional official interpretations, rules or regulations relating to the application of Article 165 of Law 1607 of 2012 may be issued by the relevant tax authorities or other governmental authorities in Colombia in the future based on, among others, the provisions and timetable set forth under Decree 2548 of 2014. In the event that any such official interpretation, rule or regulation is issued and, as a result, we cease to be able to deduct our interest payments under the notes for Colombian tax purposes, then we would be entitled to redeem the notes at our option pursuant to the provision described in "Description of the Notes—Redemption and Repurchase—Redemption for Tax Deductibility Event."

For more information on the adoption of IFRS, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Presentation and Accounting Policies—Changes in Colombian Accounting Standards."

Effects of IFRS Adoption

As discussed above, as of January 1, 2015, we are required to prepare and report our financial statements in accordance with IFRS, which differs in certain material respects from Colombian GAAP. See "Annex A – Summary of Certain Significant Differences Between Colombian GAAP and IFRS" and "Risk Factors—Risks Relating to Our Business and the Colombian Telecommunications Industry—Our Adoption of IFRS as of January 1, 2015 will result in the recognition of our PARAPAT Payment Obligations as liabilities on our balance sheet, among other effects on our financial statements."

While we have not yet prepared audited or unaudited financial statements in accordance with IFRS, the adoption of IFRS requires certain material changes to our financial statements, including the requirement that we recognize our PARAPAT Payment Obligations as liabilities on our balance sheet. Recognition of PARAPAT Payment Obligations as liabilities on our balance sheet, as well as other adjustments in our financial statements as a result of our adoption of IFRS, will have an adverse effect on our financial condition. For a reconciliation to IFRS of our shareholders' equity as of December 31, 2014 under Colombian GAAP, see "Management's Discussion and Analysis of Financial Condition and Results of Operation—Financial Presentation and Accounting Policies—Effects of IFRS Adoption—Reconciliation of Our Shareholders' Equity to IFRS." For additional information on the effect of our adoption of IFRS, see "Risk Factors—Risks Relating to Our Business and the Colombian Telecommunications Industry—We expect that our adoption of IFRS will result in stockholders' equity of less than 50% of our capital stock, which could trigger a mandatory dissolution proceeding under Colombian law." For information on the measures we intend to take in order to mitigate the effects of our adoption of IFRS on our financial condition, see "Summary—First-time Adoption of IFRS."

Accounting treatment of the PARAPAT Agreement under IFRS

Under Colombian GAAP, the PARAPAT Agreement was recorded as an operating lease, which permits us to recognize the payment of the accrued PARAPAT Payment Obligations as a cost of sales and services in our statement of operations for the relevant period and did not require recognition of these obligations as a liability on our balance sheet. Furthermore, the property, plant and equipment and the amount of the PARAPAT Payment Obligation for the immediately following year, are recorded off-balance sheet as memorandum accounts, as permitted under Colombian GAAP.

Under IFRS, we are required to account for the PARAPAT Agreement as a financial lease. As a result, the net assets related to the PARAPAT Agreement will be recorded under our property, plant and equipment, intangible assets and other financial assets on our balance sheet and all PARAPAT Payment Obligations payable in the future will be recognized as a liability under other financial obligations. Also, under IFRS, we will be required to recognize in our statement of operations the depreciation expense related to the PARAPAT Assets (as defined under "Risk Factors—Risks Relating to Our Business and the Colombian Telecommunications Industry—We have substantial payment obligations under the PARAPAT Agreement") and a portion of the accrued PARAPAT Payment Obligations payable in the relevant period as an interest expense. As of December 31, 2014, the net assets and financial liabilities related to the PARAPAT Agreement amounted to COP$933,380 million and COP$3,972,797 million, respectively. After the adoption of IFRS, we will recognize such net assets and financial liabilities on our balance sheet.

Asset Revaluation

Under IFRS 1 – First-time Adoption of International Financial Reporting Standards, we are allowed to measure certain of our property, plant and equipment, including land and buildings, at their fair value at the date of transition to IFRS and use that fair value as the deemed cost of such property, plant and equipment. Fair value becomes the "deemed cost" going forward under the IFRS cost model. We intend to take advantage of this option available to entities adopting IFRS for the first time and have engaged an internationally recognized accounting firm to determine the fair value of certain of our land and buildings. The application of this methodology will result in an increase of COP$508,538 million in the recorded value of our net assets as of December 31, 2014, as compared to the values recorded pursuant to Colombian GAAP.

Deferred Taxes

Under Colombian GAAP, we record as a deferred tax liability or asset the effect of timing differences involving the payment of a lower or higher income tax in the current year, provided that a reasonable expectation exists such differences will reverse based on our estimated future profits for tax purposes. However, we are not allowed to recognize any deferred taxes with respect to accumulated tax losses or excess of presumptive income. We generated a profit for tax purposes with respect to the year ended December 31, 2014, which allowed us to use our accumulated tax losses to offset our taxable income and to recognize deferred taxes with respect to tax credits from timing differences.

Under IFRS, we are allowed to record as a deferred tax liability or asset not only the effect of timing differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities, but also other tax benefits such as accumulated tax losses and excess of presumptive income, provided that a reasonable expectation exists such differences will reverse or such tax benefits may be used to offset our income tax expense, based on our estimated future profits for tax purposes. As of December 31, 2014, we had tax credits of COP$2,329,487 million of which COP$659,591 million correspond to accumulated tax losses and excess of presumptive income and COP$1,669,896 million correspond to timing differences between the tax bases of existing assets and liabilities and financial statement carrying amounts. We estimate that, as of December 31, 2014, we could recover COP$1,031,710 million of net deferred taxes, of which COP$332,685 million correspond to accumulated tax losses and COP$699,025 million to timing differences, that were not permitted to be recorded as such under Colombian GAAP.

For additional information on certain significant differences between Colombian GAAP and IFRS, see "Annex A – Summary of Certain Significant Differences Between Colombian GAAP and IFRS."

Special Note Regarding Non-GAAP Financial Measures

The body of generally accepted accounting principles is commonly referred to as "GAAP." A non-GAAP financial measure is generally defined by the SEC as one that purports to measure historical or future financial performance, financial position or cash flows but excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. We disclose in this offering memorandum so-called non-GAAP financial measures, primarily earnings before interest, taxes, depreciation and amortization, or EBITDA, and Adjusted EBITDA. In our case: (i) EBITDA comprises net income (loss) before depreciation and amortization; financial expenses, net and income tax; and (ii) Adjusted EBITDA means EBITDA *plus*, to the extent deducted in arriving at net income (loss) for such period, the aggregate accrued PARAPAT Payment Obligations, each determined for such period. The non-GAAP financial measures described in this offering memorandum are not a substitute for financial information prepared or presented in accordance with Colombian GAAP. For additional information on our calculation of EBITDA and Adjusted EBITDA, see "Selected Financial and Other Information—Other Financial Information."

Our management believes that disclosure of EBITDA and Adjusted EBITDA can provide useful information in connection with the review of our operating performance and the comparison of our operating performance to the operating performance of other companies in the same industry and other industries. This is because we believe EBITDA and Adjusted EBITDA are perceived as a more easily determined and comparable measures of operating performance. For example, interest expense is dependent on the capital structure and credit rating of a company. However, debt levels, credit ratings and, therefore, the impact of interest expense on earnings vary significantly among companies. Similarly, the tax positions of individual companies can vary because of their differing abilities to take advantage of tax benefits and the differing jurisdictions in which they transact business, with the result that their effective tax rates and tax expense can vary considerably. Finally, companies differ in the age, re-appraisal and method of acquisition of productive assets, and thus the relative and deemed costs of those assets, as well as in the depreciation method (straight-line, accelerated or units of production), which can result in considerable variability in depreciation and amortization expense between companies. Thus, for comparison purposes, our management believes that EBITDA and Adjusted EBITDA are useful as an objective and comparable measure of operating profitability because they exclude these elements of earnings that do not provide information about the current operations of existing assets. Our definition of EBITDA or Adjusted EBITDA in this offering memorandum is not necessarily the same as that we use for purposes of establishing covenant compliance for purposes of our financing agreements.

Market Share and Other Information

We make statements in this offering memorandum about our market share and other information relating to the telecommunications industry in Colombia, which includes mobile, fixed-line and television services. We have made these statements on the basis of information obtained from internal surveys, third-party sources, industry publications and publicly available information that we believe are reliable, such as information and reports from the Colombian Ministry of Information Technologies and Communications (*Ministerio de Tecnologías de la Información y las Comunicaciones*, or MINTIC), the Colombian Telecommunications Commission (*Comisión de Regulación de Comunicaciones*, or CRC), the Colombian Antitrust Authority (*Superintendencia de Industria y Comercio*, or SIC), the Colombian National Spectrum Agency (*Agencia Nacional del Espectro*, or ANE), the Colombian National Television Commission (*Comisión Nacional de Televisión*, or CNTV), the Colombian National Department of Statistics (*Departamento Administrativo Nacional de Estadística*, or DANE), the National Television Authority (*Autoridad Nacional de Televisión*, or ANTV), the Colombian National Council of Economic and Social Policy (*Consejo Nacional de Política Económica y Social*, or CONPES) and Pyramid Research.

We believe that the market data and other information included in this offering memorandum are presented as of the most recently available date. Except as otherwise expressly indicated in this offering memorandum, penetration information for mobile services included herein does not discount the effect of "smishing," a phishing technique on mobile devices whereby short message service, or SMS, messages are sent to accounts that are otherwise inactive, causing such accounts to be activated and included in the calculation of churn and other measures.

We accept responsibility for the accurate extraction and reproduction of third-party information; however, neither we nor the initial purchasers assume any responsibility for the accuracy or completeness such third party information, including market share, market size or similar data provided by third parties or derived from industry or general publications.

In addition, we own or have rights to use the trademarks, service marks and trade names that we use in conjunction with the operation of our business. Some of the more important trademarks that we own or have rights to use that appear in this offering memorandum include *Movistar* and *Telefónica*, each of which may be registered or trademarked in Colombia or other jurisdictions. Solely for convenience, we may refer to our trademarks, service marks and trade names in this offering memorandum without the ™ and ® symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent permitted under applicable law, our rights to our trademarks, service marks and trade names.

Operating Data

As used in this offering memorandum, the following terms shall have the meanings indicated below:

- "Customers" refer to the individuals or companies that have subscribed for our services;
- "Fixed lines" refer to the number of active fixed lines connected to our basic telephone and public telephone services.
- "Internet subscribers" refer to the number of dedicated asymmetric digital subscriber lines, or ADSL, accesses activated;
- "Post-paid subscribers" refer to mobile subscribers that are billed periodically following their use of mobile services;
- "Pre-paid subscribers" refer to mobile subscribers that purchase credit for mobile services before their use of such services;
- "Subscribers" refer to the number of lines activated or accessed; and
- "TV subscribers" refer to the number of active subscribers of our satellite television services.

We disconnect, or "churn," our post-paid subscribers, either when (i) they voluntarily discontinue their service; or (ii) 90 days, in the case of individuals, or 120, in the case of our corporate customers, after their account has become delinquent. We disconnect our pre-paid subscribers 90 days after they have not received or sent voice or SMS traffic. We disconnect our fixed-line, TV and Internet subscribers 150 days after their account has become delinquent, except in the case of first time subscribers with no payment history, in which case we disconnect such subscribers after 120 days of delinquency. We calculate our subscriber market share by dividing our own subscriber figures into the total market subscriber figures. We compile total market subscriber figures based on subscriber figures publicly reported by market participants and governmental agencies, and we do not independently verify these figures.

Throughout this offering memorandum, we make reference to certain operating data, such as average revenues per subscriber per month, or ARPU, total minutes and churn rate, which are not included in our financial statements. We calculate ARPU by dividing revenues, excluding revenues from equipment sales, for a given period by the average number of subscribers for such period. "Total minutes" is the total minutes of use for a given period. We calculate churn rate as the total number of subscriber deactivations for a given period divided by total average subscribers of such period. We calculate ARPU and capital expenditures using non-audited financial information prepared for management. Such financial information is not derived from our financial statements or based on Colombian GAAP principles.

We provide this operating data because it is regularly reviewed by management and because management believes it is useful in evaluating our performance from period to period. This additional operating information may not be uniformly defined by our competitors. Accordingly, this additional operating information may not be comparable with similarly titled measures and disclosures by other companies.

Technical and Regulatory Terms

As used in this offering memorandum, the following terms shall have the meanings indicated below:

- "2G" refers to second-generation wireless telephony technology services, or 2G services, operating on GPRS and EDGE networks, which allow speeds of up to 114 Kbps and 230 Kbps, respectively;
- "3G" refers to third-generation wireless technology services, or 3G services, operating on UMTS/HSPA and HSPA+ networks, which allow speeds of up to 14 Mbps and 21 Mbps, respectively;
- "4G" or "LTE" refers to fourth-generation long-term evolution or wireless technology, or 4G services, which allow speeds of up to 100 Mbps;
- "ADSL" refers to asymmetric digital subscriber lines, a data transmission technology that allows data transmission at high speeds through copper lines;
- "ADSL2+" refers to International Telecommunication Union standard G.992.5, which extends the capabilities of basic ADSL;
- "ARPU" refers to average revenues per subscriber per month;
- "AWS" refers to advanced wireless services, a band of the radio spectrum used for voice and data services;
- "Carrier services" refers to services that provide the necessary capacity for the transmission of signals between two or more defined points of a telecommunications network;
- "DBS" refers to direct broadcast satellite services or satellite television broadcasts intended for home reception;
- "DTH" refers to direct-to-home services and is often used in reference to services carried by lower power satellites which required larger dishes;
- "DWDM" refers to dense wavelength division multiplexing transmissions technology;
- "CDMA" refers to code division multiple access, a multiple access method used in radio communication;
- "E1" refers to European standard set by the European Conference of Postal and Telecommunications Administrations for digital transmission at 2Mbps speeds;
- "EDGE" refers to enhanced data rates for GSM evolution;
- "Gbps" refers to gigabytes per second;

- "GPON" refers to gigabit passive optical network;
- "GPRS" refers to general packet radio service;
- "GSM" refers to global system for mobile communications;
- "HD" refers to high definition;
- "HSPA" refers to high speed packet access;
- "HSPA+" refers to evolved high speed packet access;
- "HTTP" refers to hypertext transfer protocol, the communication protocol of the web;
- "IP" refers to Internet protocol;
- "ISP" refers to Internet service provider;
- "IMSI" refers to international mobile subscriber identity;
- "IT" refers to information technology;
- "Kbps" refers to kilobytes per second;
- "LAN" refers to local area network;
- "M2M" or "Machine-to-Machine" refers to technologies that allow both wireless and wired systems to communicate with other devices of the same type;
- "MBB" refers to mobile broadband;
- "Mbps" refers to megabytes per second;
- "MHz" refers to megahertz, one million cycles per second;
- "MMS" refers to multimedia message services;
- "MPLS" refers to multiprotocol label switching networks;
- "MSS" refers maximum segment size, a parameter of transmission control protocol;
- "MVNO" refers to mobile virtual network operators;
- "NG-SDH" refers to next-generation synchronous digital hierarchy transmissions technology;
- "PC card" refers to personal computer memory card international association, a defunct peripheral interface designed for laptop computers;
- "PCS" refers to personal communications service;
- "SIM" refers to subscriber identity module;
- "SIP" refers to session initiation protocol;

- "SMS" refers to short message services;

- "SNT" refers to the Colombian National Telecommunications System (*Sistema Nacional de Telecomunicaciones*);

- "Tbps" refers to terabytes per second;

- "TDMA" refers to time division multiple access;

- "ToIP" refers to Telephone over Internet Protocol;

- "UMTS" refers to universal mobile telecommunications system, or a third generation mobile cellular technology network;

- "USB" refers to universal serial bus, an industry standard used in cables and connectors for communication and power supply between computers and electronic devices;

- "VDSL" refers to very-high-bit-rate digital subscriber line;

- "VoIP" refers to voice over Internet protocol;

- "VPN" refers to virtual private network;

- "WAP" refers to wireless application protocol;

- "Web" refers to the world wide web; and

- "WiMAX" refers to worldwide interoperability microwave access.

Rounding

We have made rounding adjustments to reach some of the figures included in this offering memorandum. As a result, numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that preceded them. Percentage figures have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding. As a result, percentage amounts may vary from that obtained by performing the same calculations using the figures in this offering memorandum.

The meaning of the word "billion" in Spanish differs from its English-language equivalent. In Spanish, as used in Colombia, a billion means the number 1,000,000,000,000. On the other hand, in American English, a billion means the number 1,000,000,000. In this offering memorandum, the meaning of "billion" is that used in American English.

SUMMARY

This summary highlights information presented in greater detail elsewhere in this offering memorandum. This summary is not complete and does not contain all the information you should consider before investing in the notes. You should carefully read this entire offering memorandum, including "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our audited financial statements and the notes thereto included elsewhere in this offering memorandum, before investing. See "Presentation of Financial and Other Information" for information regarding such financial statements, definitions of technical terms and other introductory matters.

Overview of Our Company

We are a full-service telecommunications provider offering a range of integrated telecommunications services including fixed-line, mobile, data transmission (including broadband access and value-added services) and subscription television services throughout Colombia. We believe we are the second-largest integrated fixed-line and mobile telecommunications provider in Colombia in terms of subscribers and revenues, according to information available from the MINTIC. As of September 30, 2014, we operated the largest fixed-line network in Colombia in terms of geographical coverage, according to information available from MINTIC. We are the result of the merger of TEMCO with and into CT, which became effective on June 29, 2012. We are an indirect subsidiary of Telefónica, the world's sixth-largest telecommunications company in terms of revenues as of December 31, 2013, according to Bloomberg. Our relationship with Telefónica benefits us through the use of Telefónica's internationally recognized *Movistar* brand, present in 14 countries in Latin America, and through access to Telefónica's industry experience, economies of scale, synergies, strategic initiatives and technical expertise. We offer all of our telecommunications services under the *Movistar* brand. The Republic of Colombia, acting through the MHCP, holds 30% of our capital stock.

We serve residential customers, small, medium and large companies and governmental agencies. As of December 31, 2014, we had 12,842,498 mobile subscribers, 1,461,031 fixed lines in service, 959,175 Internet subscribers and 415,977 TV subscribers. As of September 30, 2014, we had a market share in Colombia of 23.5% for mobile services, 20.3% for fixed-line services, 19.2% for internet broadband services and 8.2% for subscription television services, according to the MINTIC, the SIC and the ANTV.

As of December 31, 2014, we had total assets of COP$6,964,839 million (U.S.$2,911.2 million), with total equity of COP$973,420million (U.S.$406.9million). In 2014, we had net revenues of COP$4,639,999 million (U.S.$1,939.4 million), net income of COP$11,314 million (U.S.$4.7 million), EBITDA of COP$1,395,017 million (U.S.$583.1 million) and Adjusted EBITDA of COP$1,687,469 million (U.S.$705.3 million). In 2013, we had net revenues of COP$4,200,775 million (U.S.$1,755.8 million), EBITDA of COP$1,293,171 million (U.S.$540.5 million), Adjusted EBITDA of COP$1,441,634 million (U.S.$602.6 million) and net loss of COP$262,013 million (U.S.$109.6 million).

Mobile Telecommunications Services

We offer mobile voice and data services under a variety of rate plans to meet the needs of different user segments. Our rate plans are either pre-paid, where the subscriber pays in advance for a specified volume of use over a specified period, or post-paid, where the subscriber is billed monthly for usage in the previous month. As of September 30, 2014, pre-paid and post-paid subscribers represented approximately 74.0% and 26.0%, respectively, of our total mobile services subscribers, and we had the largest percentage of post-paid subscribers to total mobile subscribers among telecommunications providers in Colombia, according to information available from MINTIC. In2014 and in 2013, our ARPU from pre-paid subscribers was COP$5,098 and COP$4,895, respectively, and our ARPU from post-paid subscribers was COP$50,508 and COP$50,252 respectively.

Through our mobile telecommunications business, we provide numerous data services, including messaging services, wireless Internet services and value-added services. Our messaging services, which have experienced significant traffic growth in recent years, include SMS and MMS. Our wireless Internet services include mobile broadband, which allows our customers to access the Internet from a laptop or desktop computer using USB broadband cards, and SIM cards to connect tablets or other mobile devices to our wireless network. Our value-added services include e-mail and entertainment content downloads. We hold licenses to operate wireless networks in all geographic regions in Colombia using both the 850 MHz and 1900 MHz radio spectrums to operate our 2G and 3G networks, and the AWS band (1710 to 1755 MHz paired with 2110 to 2155 MHz) to operate our 4G network. Our mobile services are based on GPRS, EDGE, UMTS, HSPA, HSPA+ and LTE technologies.

Fixed-Line Telecommunications Services

Our fixed-line telecommunications business includes domestic and long-distance telephone services, network usage services (interconnection), high-speed data transmission and Internet services and public telephones. As of September 30, 2014, we operate the largest fixed-line network with the highest voice and broadband coverage in the country, present in 79.7% and 32.0%, respectively, of Colombia's 1,121 municipalities, according to information available from MINTIC. As of December 31, 2014, we had 1,461,031 fixed lines in service, and as of September 30, 2014, we had a 20.3% market share, according to information available from MINTIC. We offer a variety of high-speed data transmission services, including broadband services, primarily utilizing ADSL2+ technology. As of December 31, 2014, we had approximately 959,175 Internet subscribers, and as of September 30, 2014, we had market share of 19.2% according to information available from MINTIC.

We also own and operate a nationwide fiber optic network, consisting of approximately 11,135 km of optical fiber as of December 31, 2014. In addition, we have an IP MPLS core network that utilizes Internet access technologies such as broadband ADSL2+ and GPON for our fixed-line operations. We have access to five international submarine connection points located in the Atlantic Ocean, two of which are landing points

Subscription Television Services

We offer satellite subscription television services, through which we offer a selection of 111 regular channels and 28 HD channels. We offer basic subscription packages as well as a variety of premium packages, allowing subscribers to tailor the content to their individual preferences. We also offer satellite subscription television as part of an integrated package of services designed to attract and retain customers seeking to subscribe to a single provider for all of their telecommunications needs. As of December 31, 2014, we had approximately 415,977 subscription television subscribers, and according to information available from MINTIC, a market share of 8.2% as of September 30, 2014.

Telecommunications Industry in Colombia

Colombia's telecommunications sector has experienced a high rate of growth consistent with the expansion of telecommunications services around the world. In recent years, the rate of revenue growth in the Colombian telecommunications industry has exceeded the rate of growth of Colombia's gross domestic product, or GDP. From 2007 to 2013, the telecommunications sector accounted for more than 3.1% of Colombia's GDP, according to the DANE, and Colombia's telecommunications sector grew at a compounded annual rate of 7.3% from 2000 to 2013 according to the DANE, compared to a 4.3% compound annual growth rate, or CAGR, of Colombia's GDP during the same period.

Although the Colombian telecommunications industry is highly concentrated among a few providers, it remains open to competition and new market participants. For example, DirecTV Colombia Ltda., or DirecTV, and Avantel S.A.S., or Avantel, entered the mobile services sector in 2013 through a 4G network auction held by the Colombian government.

Over the last decade, the Colombian telecommunications market has undergone consolidation through mergers, acquisitions and privatizations of government-owned service providers. A recent example of this trend is the merger of UNE EPM Telecomunicaciones S.A., or UNE EPM, a fixed-line and internet services provider operating under the *Une* brand, into Colombia Móvil S.A., or Colombia Móvil, a subsidiary of Millicom International Cellular S.A., or Millicom International, operating under the *Tigo* brand, in August 2014. See "The Colombian Telecommunications Industry—The Colombian Mobile Telecommunications Industry—Major Competitors in Mobile Telecommunications in Colombia—Colombia Móvil."

Other than our company, which operates under the *Movistar* brand, the main providers of telecommunications services in Colombia are (i) Claro Colombia S.A., or Claro Colombia, a subsidiary of América Móvil S.A.B. de C.V., or América Móvil, which operates under the *Claro* brand, and (ii) Colombia Móvil, which operates under both the *Tigo* and *Une* brands. We estimate that we, Claro Colombia and Colombia Móvil generated 96.9% of the revenues for the Colombian mobile services sector as of September 30, 2014, divided in 20.3%, 58.6% and 19.1%, respectively. In addition to the main providers, the three main MVNOs operating in Colombia are (i) Virgin Mobile Colombia S.A.S., or Virgin Mobile, (ii) UFF Móvil S.A.S., or UFF, and (iii) Almacenes Éxito, or Éxito. Virgin Mobile uses our network, while UFF, Empresa de Telecomunicaciones de Bogotá S.A., or ETB, and Éxito each use Claro Colombia's network. MVNOs accounted for 4.5% mobile subscriber market share as of September 30, 2014, according to information available from MINTIC.

The growth of the mobile services sector and Internet services have been the key drivers of growth in the Colombian telecommunications industry as a whole. The penetration of Internet and broadband access services in Colombia has significantly increased in recent years from 2.8% of households in 2005 to 34.1% in 2013, according to information available from MINTIC, which we believe is primarily due to increased availability of personal computers in Colombia, increased competition among Internet providers and the efforts of the Colombian government to promote the access and use of Internet technologies.

The penetration of mobile services during the same period increased from 51.0% in 2005 to 106.0% in 2013, according to information available from MINTIC and SIC. The penetration rate for mobile services is expected to increase by 12.3% from 2011 to 2018, according to Pyramid Research. Penetration rates can reach more than 100.0% due to individuals using more than one phone and *smishing*. The increase in mobile penetration and competition from other telecommunication services has led to traffic migration from fixed-line traffic to mobile traffic and the substitution of mobile services for fixed-line services. In addition, penetration in the subscription television market grew steadily from 14.0% in 2006 to 35.6% in 2013, according to the ANTV.

For more detailed information regarding the Colombian telecommunications industry, see "The Colombian Telecommunications Industry" elsewhere in this offering memorandum.

Our Strengths

We believe the following are our competitive strengths:

Integrated and diversified product and service offerings. We are the second-largest integrated fixed-line and mobile telecommunications provider in Colombia in terms of subscribers and revenues based on information available from the MINTIC, the ANTV and SIC. We offer our customers a broad range of telecommunications products and services under the *Movistar* brand, including fixed-line telecommunications, mobile telecommunications, broadband services and television subscription in integrated service packages. Our operations allow us to focus on our customers by offering integrated service packages designed to meet their needs, combining fixed-line, mobile, broadband and other services into a single package. We believe the offering of integrated service packages and the consolidation of our mobile services offerings result in greater customer loyalty and, consequently, a decrease in churn rates. As an integrated service provider, we also benefit from synergies that lead to reductions in operating costs and investments.

Diverse spectrum portfolio. We have a diverse and complete low band portfolio. We have licenses to use a total of 25 MHz in the 850 MHz band, 30 MHz in the 1900 MHz band and 30 MHz in the AWS band (1710 to 1755 MHz paired with 2110 to 2155 MHz). We believe our low band portfolio gives us an advantage in low traffic areas (such as rural zones), as low bands between 698 MHz and 960 MHz) have a better propagation rate than high bands (between 1710 MHz and 2690 MHz), allowing us to cover larger areas using fewer resources and less infrastructure. In addition, we believe that we have a strong high band portfolio compared to our main competitors. We offer 4G services in the AWS band in the 1710 to 1755 MHz radio spectrum paired with the 2110 to 2155 MHz radio spectrum, which has a better propagation rate and lower installation costs than the 2500MHz band in which Claro Colombia operates. We also provide 2G and 3G services in both a low band (850 MHz) and high band (1900 MHz), as compared to Colombia Móvil, which only provides 2G and 3G services in a high band (1900 MHz).

Extensive network coverage and strong market share. We operate the largest fixed-line network in Colombia in terms of geographical coverage, and we had the highest voice and broadband coverage, representing 79.7% (as of December 31, 2013) and 32.0% (as of September 30, 2014), respectively, of the total municipalities in Colombia, according to information available from SIC and MINTIC. As of December 31, 2014, we also had an extensive mobile network, with 83.4% and 85.7% coverage for 2G wireless voice services, as measured by Colombia's population and total number of municipalities in Colombia, respectively, and 75.4% and 82.6% coverage for 3G wireless data services, as measured by Colombia's population and total number of municipalities in Colombia, respectively, according to internal estimates. We also have coverage along approximately 12,875 kilometers of Colombia's intercity highways, according to internal estimates. We are expanding our 3G coverage to match our 2G coverage, with 3G services currently available in 926 of Colombia's 1,121 municipalities. In addition, as of December 31, 2014, our LTE network had 30.3% and 6.7% coverage, also measured by Colombia's population and total number of municipalities, respectively, according to internal estimates. As of September 30, 2014, we had a market share of 20.3% of the total fixed lines in Colombia, 23.5% of the total number of mobile subscribers and 19.2% of the total number of Internet subscribers in service, based on information available from MINTIC.

Strong base of post-paid subscribers. The ARPU generated by subscribers to our post-paid plans is more than 10 times greater than that of our pre-paid subscribers. We believe that our ratio of post-paid to pre-paid subscribers is the highest among Colombian operators. Our ratio of pre-paid to post-paid customers was approximately 74.0% to 26.0% as of September 30, 2014, compared to 80.1% and 19.9%, respectively, for Claro Colombia, and 81.4% and 18.6%, respectively, for Colombia Móvil, according to information available from MINTIC. We have achieved this position through our practice of regularly encouraging pre-paid subscribers to migrate to our higher value post-paid plans. We use mobile packs, which are packages of additional minutes, to encourage recurrent spending by pre-paid subscribers, thereby creating habits that induce these subscribers to migrate from pre-paid plans to post-paid plans. We also work to identify pre-paid subscribers who may not have initially been able to qualify for a post-paid plan, but whose payment patterns and behaviors indicate that they can safely afford higher-value plans. Our strong base of post-paid subscribers contributes to our profitability.

Diversified revenue stream and revenue growth across several lines of business. We have increased our revenues in recent years through growth in our Internet broadband, data transmission, subscription television and mobile voice and data business segments, even as the market for fixed-line telecommunications services has contracted. For example, our net revenues from data transmission and subscription television segments grew from COP$644,463 million and COP$118,748 million, respectively, in 2013 to COP$698,746 million and COP$162,017million, respectively, in 2014, while net revenues from our mobile segment grew from COP$2,430,750 million in 2013 to COP$2,908,289 million in 2014. As of September 30, 2014, our Internet broadband network reached 363 municipalities in Colombia, representing 32.0% coverage based on municipalities served, according to information available from MINTIC. In addition, our high quality subscription television services have allowed us to capture a market share of 8.2% as of September 30, 2014 in just six years of operation, according to information available from MINTIC.

Diversified and strong distribution channels with specialized sales and service teams. We have developed an extensive distribution network consisting of 84 *Movistar* stores, 160 exclusive dealers and a broad network of non-exclusive retail outlets, reaching 1,024 points of sale as of December 31, 2014. We have seven call centers dedicated to servicing our existing and potential customers, which also engage in cross-selling efforts. In addition, 77 of our commercial dealers are focused on marketing our pre-paid mobile products, while 14 additional commercial dealers are focused on distributing our pre-paid cards and marketing recharges of pre-paid phones. We continuously perform training and evaluation programs for the personnel in our agencies in order to maintain a high level of service quality. We also have a specialized corporate sales group with 262 salespeople to service the needs of our small and medium-sized enterprise, or SME, clients. Our largest corporate clients are serviced by a specialized direct sales team with industry-specific knowledge to better serve their needs.

The* Movistar *brand. We believe the *Movistar* brand is among the most valuable brands in Latin America, with a presence in Argentina, Brazil, Chile, Colombia, Ecuador, Peru, Uruguay, Venezuela, Mexico and several countries in Central America, and is known for its high-quality mobile communications services, innovation, reliability, accessibility and dependability. All of our services are offered under the *Movistar* brand. While we benefit from Telefónica's uniform marketing and branding strategy across Spain and Latin America, we apply a customized marketing approach that is highly adapted to the Colombian market and local culture. For example, we have developed regional products and marketing campaigns tailored to the preferences of our customers in the north coast of Colombia, which focuses on our pre-paid mobile products. Our branding strategy also includes sponsoring activities that are widely followed by the population in Colombia, such as soccer and cycling, which contribute to the recognition of our brand. For example, we are one of the official sponsors of the Colombian national soccer and cycling teams, providing a high level of visibility, prestige and brand strength for *Movistar*.

Our relationship with Telefónica. We benefit from Telefónica's experience as a global telecommunications operator, especially in terms of strategic initiatives and technological innovation. As of September 30, 2014, according to internal estimates, Telefónica was the sixth-largest telecommunications company in the world in terms of revenues and the second largest European operator, providing telecommunications services in 21 countries to over 316 million subscribers. Given its global footprint, Telefónica actively participates in mobile telecommunications developments and deploys best practices and innovative solutions from one market across all of its markets. We also benefit from Telefónica's economies of scale. For example, Telefónica negotiates the supply of most of its handsets and hardware on a centralized basis for all of its subsidiaries, which we believe allows us to purchase equipment at lower prices than would otherwise be possible. In addition, we benefit from the use of the *Telefónica* brand, which we believe is recognized as a leading, experienced and reliable global telecommunications operator.

Experienced management and talented employees. We are led by a seasoned management team with a proven execution track record and an average of 15 years of experience in the telecommunications industry. We also have highly qualified engineers with significant experience and industry expertise. Additionally, our employees strive to provide excellent customer service and we are continuously implementing training and development programs. We support our employees with a positive working environment. Since 2012, we have been consistently ranked among the top three best places to work in Colombia in the category of companies with over 500 employees, according to the Great Place to Work ® Institute.

Focus on corporate governance. We operate our business pursuant to strong corporate governance standards which are based on value creation and protection for shareholders and investors. In 2014 we approved our new code of corporate governance which, among other things, provides for specific rules regarding conflicts of interest, establishes information disclosure requirements for shareholders and investors, and creates an office of investor relations. The principles set forth in our code of corporate governance are a fundamental part of our corporate culture and our business strategy, and we believe that our corporate governance practices follow, to the extent applicable, the highest corporate governance standards in Colombia, which correspond to those of the companies listed on the Colombian Stock Exchange (*Bolsa de Valores de Colombia*).

Our Strategy

Our specific strategic initiatives include:

Enhance customer satisfaction. We continue to implement strategies designed to achieve the highest levels of customer satisfaction. Our main priority is to improve the quality of our services and enhance our customers' experience with new products that respond to their preferences. We have identified three key areas of focus as part of our strategy to enhance customer satisfaction: (i) improve the customer experience by offering new products (including M2M services and on-demand television) and strengthening online service channels; (ii) increase the quality of our installation and maintenance services through continuous technological improvement in order to reduce customer claims and complaints and improve customer response times, as well as efficient deployment of our 3G and 4G networks to satisfy regulatory requirements; and (iii) improve our tools and streamline our processes. In addition, we continue to consolidate areas of management in both the mobile and fixed-line segments to provide customers with a more comprehensive and convenient service experience. By anticipating customers' future needs and providing customers with rapid assistance, we are able to offer a meaningful customer service experience. If our customers are satisfied, the demand for our brand, products and services will grow. High customer satisfaction thereby enhances our ability to increase customer loyalty and retention, while allowing us to attract new customers.

Develop innovative value-added services in the mobile segment. In addition to our mobile voice and data services, we are seeking to introduce innovative products and services to diversify our revenue stream and attract new customers. We intend to expand our current value-added service offerings, including access to premium entertainment content and location-based services for our mobile customers. We also intend to focus on acquiring additional spectrum capacity to increase our capabilities, so that we may continue to provide our customers with advanced technological and differentiated service offerings. Furthermore, by expanding our ability to bundle several telecommunications services together, including mobile Internet and premium subscription television services, into a convenient package for our customers, we believe that we can continue to successfully attract more clients through the use of our cross-selling strategies and the expansion of our mobile broadband and mobile browsing products and services.

Maintain our leadership in innovation. We intend to maintain our focus on developing and providing a wide range of digital services to our corporate clients, including integration services, internal and external business communications, management of network systems, IT workstations, business continuity, network and sector applications and security services, and we believe we are well positioned to become the market leader in this segment. We are also adopting an innovative marketing strategy to increase our market share in the mobile voice segment. For instance, we encourage customer loyalty through the use of "friends and family" plans, whereby customers are able to achieve cost savings by purchasing additional lines. In addition, we offer promotions in connection with our pre-paid plans to attract new customers.

Enhance our financial strength. As of December 31, 2014, our total outstanding indebtedness (which corresponds to our financial obligations and bonds and securities) amounted to COP$4,060,076 million, consisting of COP$352,278 million of short-term indebtedness, including the current portion of long-term indebtedness (or 8.7% of our total indebtedness), and COP$3,707,798 million of long-term indebtedness (or 91.3% of our total indebtedness). As of December 31, 2014, the average term of our indebtedness was 4.6 years. Since 2012, we and our shareholders have implemented a series of measures to improve our financial condition, which included the successful restructuring of the PARAPAT Payment Obligations and the completion of the TEMCO Merger, which resulted in a significant decrease of our payment obligations under the PARAPAT Agreement. In 2012, we also issued our U.S.$750.0 million 5.375% senior notes due 2022, the proceeds of which were used to repay our short-term indebtedness, and renegotiated the terms of a significant portion of our outstanding indebtedness. This allowed us to extend the average term of our indebtedness from 1.8 years as of June 30, 2012 to 6.7 years as of December 31, 2012. We believe our improved debt maturity profile will enhance our ability to continue accessing the local capital markets to finance our working capital needs.

In addition, as part of our financial strategy, we seek to avoid currency mismatches through the use of hedging instruments. As of December 31, 2014, COP$2,554,166 million (COP$2,369,362 million net of exchange rate hedging instruments related to our financial indebtedness) of our total outstanding indebtedness was denominated in U.S. dollars, of which COP$205,404 million (COP$165,306 million net of exchange rate hedging instruments related to our financial indebtedness) was short-term indebtedness, including the current portion of long-term indebtedness, and COP$2,348,762 million (COP$2,204,056 million net of exchange rate hedging instruments related to our financial indebtedness) was long-term indebtedness. As of December 31, 2014, we had entered into hedging agreements in respect of 100.0% of our U.S. dollar-denominated financial indebtedness. Our total outstanding indebtedness net of exchange rate hedging instruments related to our financial indebtedness as of December 31, 2014 was COP$3,875,272 million. The notes offered hereby are expected to received 100.0% equity treatment under IFRS, therefore, they will not be deemed to be financial indebtedness for IFRS accounting purposes. We intend to continue using derivative instruments to mitigate our exposure to foreign exchange and, to a lesser extent, interest rate market risks.

Maintain high efficiency and cost controls. We intend to continue pursuing initiatives to increase the efficiency of our internal processes in order to control our costs and improve the quality of our services. As part of the Telefónica group, we intend to continue to take advantage of shared services on a global level to benefit from gains in economies of scale and operating synergies. For example, we derive benefits from the economies of scale that Telefónica Global Services generates when it conducts global negotiations with providers, resulting in significant savings for each of the members of the Telefónica group. To maintain cost control, we continuously perform budget controls through weekly meetings of our operating expenditures and capital expenditure committees; additionally we perform daily general budget controls. For instance, our costs and expenses as a percentage of our operating revenues (before PARAPAT Payment Obligations) have improved from 66.3% in 2012 to 65.8% in 2013 and to 63.8% as of December 31, 2014.

In 2014, the Telefónica group initiated a global transformation program to simplify its operational model. This program seeks to maintain current operational levels with fewer resources, focusing on segments which are a priority to our customers. As part of Telefónica's initiative, we have identified multiple areas for potential improvement in Colombia, including the efficiency and capability of our networks, of our IT systems and our business model.

First-time Adoption of IFRS

Beginning on January 1, 2015, we are required to prepare our financial statements in accordance with IFRS, which differs in certain material respects from Colombian GAAP. For a discussion of certain significant differences between Colombian GAAP and IFRS, see "Annex A – Summary of Certain Significant Differences Between Colombian GAAP and IFRS." The adoption of IFRS will require certain material changes to our financial statements. In particular, under IFRS, we will be required to recognize as liabilities on our balance sheet all PARAPAT Payment Obligations, which are not currently recognized as liabilities for Colombian GAAP purposes. As of December 31, 2014, the net assets and financial liabilities related to the PARAPAT Agreement amounted to COP$933,380 million and COP$3,972,797 million, respectively. Recognition of our PARAPAT Payment Obligations as liabilities on our balance sheet, as well as other adjustments in our financial statements as a result of the adoption of IFRS, would result in negative stockholders' equity as of December 31, 2014 and at the date of IFRS adoption, which could trigger a mandatory dissolution proceeding under Article 457 of the Colombian commercial code due to our shareholders' equity representing less than 50% of our share capital. The existence of such dissolution event would be verified on the date our general shareholders' meeting approves our audited financial statements for the relevant fiscal year for which such net worth is reflected. Under Colombian law, we would then have an 18-month cure period during which our shareholders may adopt any measures necessary to increase our shareholders' equity to a level of at least 50% of our subscribed capital stock. See "Risk Factors—Risks Relating to Our Business and the Colombian Telecommunications Industry—We expect that our adoption of IFRS will result in stockholders' equity of less than 50% of our capital stock, which could trigger a mandatory dissolution proceeding under Colombian law."

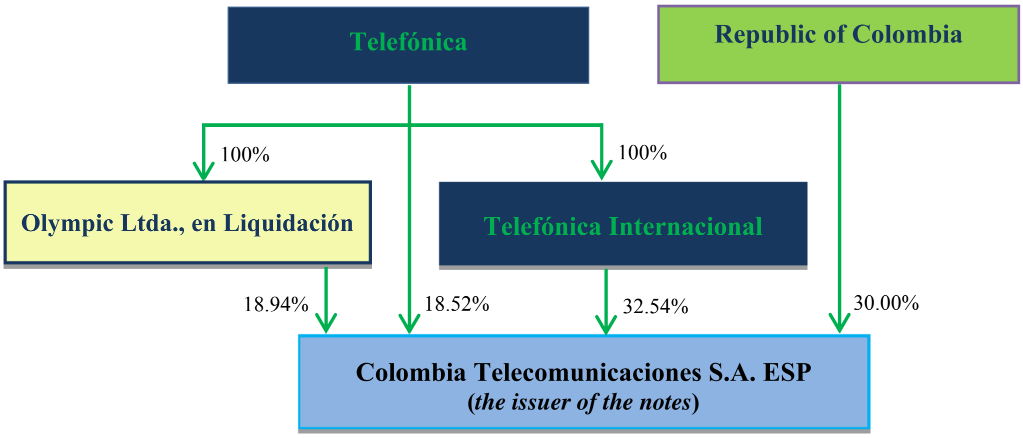
We expect that the negative effect of our recognition under IFRS of all PARAPAT Payment Obligations as a liability on our balance sheet will be partially offset by the effect of (i) our recognition of net assets related to the PARAPAT Assets on our balance sheet which amounted to COP$933,380 million as of December 31, 2014, (ii) our recognition of a portion of net tax credits as deferred taxes we estimate could be recoverable, which amounted to COP$1,031,710 million, as of December 31, 2014, and (iii) our exercise of the option available to entities adopting IFRS for the first time, to measure certain of our land and buildings at their fair value and using that fair value as the deemed cost of such property, plant and equipment, which will result in an increase of COP$508,538 million in the recorded value of our net assets as of December 31, 2014, as compared to the values recorded pursuant to Colombian GAAP. For a reconciliation to IFRS of our shareholders' equity as of December 31, 2014 under Colombian GAAP, see "Management's Discussion and Analysis of Financial Condition and Results of Operation—Financial Presentation and Accounting Policies—Effects of IFRS Adoption—Reconciliation of Our Shareholders' Equity to IFRS."

In addition, we believe the offering of the notes, which will receive a 100.0% equity treatment under IFRS, will contribute to strengthen our capital structure and further mitigate the accounting impact of our adoption of IFRS on our shareholders' equity. We are also evaluating the effect of reducing our outstanding share capital by decreasing the par value of our common shares.

While we believe that the combination of factors and measures described above, along with others under consideration will be sufficient to mitigate the accounting impact of our adoption of IFRS, no assurance can be given that such actions will be effective. See "Risk Factors—Risks Relating to Our Business and the Colombian Telecommunications Industry—We expect that our adoption of IFRS will result in stockholders' equity of less than 50% of our capital stock, which could trigger a mandatory dissolution proceeding under Colombian law." For additional information on the effects of our adoption of IFRS see "Presentation of Financial and Other Information—Financial Statements—Effects of IFRS Adoption."

Corporate Structure

The following chart presents our corporate structure as of the date of this offering memorandum:



Investment Agreement with the Republic of Colombia

In 2006, the Republic of Colombia, acting through the MHCP, certain minority shareholders of CT, Telefónica Internacional and CT entered into a Framework Investment Agreement (*Acuerdo Marco de Inversión*, or the Investment Agreement). The Investment Agreement sets forth, among other matters, provisions relating to CT's governance, including the composition of its board of directors and certain matters for which a favorable vote of Telefónica Internacional, the Republic of Colombia and certain minority shareholders is required.

In addition, as amended on March 30, 2012, the Investment Agreement provides that, upon the occurrence of certain exit events, Telefónica Internacional is required to purchase all or part of our shares owned by the Republic of Colombia and other minority shareholders. These events include (i) our non-payment of two bimonthly installments of the PARAPAT Payment Obligations or (ii) a CAGR of EBITDA (calculated pursuant to the terms of the Investment Agreement) of less than 5.75% (subject to certain conditions) as measured between 2011 and 2014 and between 2014 and 2017; *provided,* that in the 12 months preceding the shareholders' meeting in which such determination is made: (a) we have undertaken capital expenditures exceeding 12.5% of our net revenues, subject to certain exceptions; (b) we have paid fees for the use of Telefónica Internacional trademarks; or (c) we have declared dividends with the affirmative vote of Telefónica Internacional and its affiliates.

Furthermore, the amended Investment Agreement provides that in 2015, the Republic of Colombia will be entitled to subscribe for or acquire shares of our company up to an amount equal to an additional 2.5% of our total outstanding capital stock if the CAGR of our EBITDA (calculated pursuant to the terms of the Investment Agreement) between 2011 and 2014 reaches certain levels. Based on our results of operations between 2011 and 2014, our EBITDA growth for this period was 9.4%, which corresponds to the range set forth in the Investment Agreement that will entitle the Republic of Colombia to receive a number of our common shares equal to 2.5% of our outstanding capital stock. Pursuant to the terms of the Investment Agreement, the Republic of Colombia is not required to pay any additional consideration in respect of such common stock. For more detailed information regarding the Investment Agreement, see "Principal Shareholders—Investment Agreement with the Republic of Colombia."

Our History

We were created in 2003 as a result of the Colombian government's decision to liquidate the state-owned telecommunications service provider, *Empresa Nacional de Telecomunicaciones*, or Telecom, and certain of its affiliated companies. In 2003, we assumed Telecom's operations and, on August 13, 2003, we entered into the PARAPAT Agreement, whereby we (i) acquired the exclusive right to use and operate the telecommunications properties and assets of Telecom and its affiliated companies and (ii) would receive these assets at the expiration date of the agreement. In exchange for this right, we agreed to pay the PARAPAT Payment Obligations, first directly to Telecom and its affiliated companies and, since December 2005, to an asset protection trust known as *Patrimonio Autónomo Receptor de Activos de la Empresa Nacional de Telecomunicaciones en Liquidación y Las Empresas Teleasociadas en Liquidación*, or PARAPAT. The proceeds from the PARAPAT Payment Obligations would be used by PARAPAT mainly to fund Telecom's legacy labor and pension obligations. See "Business—PARAPAT Agreement."

Telefónica acquired a controlling stake in our company in April 2006 through its subsidiary Telefónica Internacional, at which time we, Telefónica and the Republic of Colombia entered into the Investment Agreement. See "Principal Shareholders—Investment Agreement with the Republic of Colombia."

We commenced operations under the *Movistar* brand in May 2012, and, in June 2012, we merged with TEMCO, a Colombian mobile telecommunications provider owned by Telefónica, upon which our company was the surviving entity. For a more detailed discussion on the TEMCO Merger, see "Business—Our History—TEMCO Merger."

TEMCO was incorporated in October 1997 as Celumóvil S.A., or Celumóvil, and was the result of a merger between Celular Móvil de Colombia S.A. and Celumóvil de la Costa S.A. In July 2000, Celumóvil acquired 100.0% of Cocelco S.A., or Cocelco, a Colombian mobile telecommunications provider, which was subsequently merged into Celumóvil in January 2001. Celumóvil was acquired by Bellsouth Corporation in 2000 through its Colombian subsidiary Olympic Ltda. en Liquidación. In 2004, Telefónica acquired Celumóvil and renamed it Telefónica Móviles Colombia S.A. In 2005, Telefónica adopted the *Movistar* brand as the sole brand for its mobile telecommunications services in 13 Spanish-speaking countries, including Colombia. In 2005, TEMCO migrated from CDMA to GSM technology.

Recent Developments

Since December 31, 2014, we have incurred COP$215,710 million of additional short-term indebtedness to finance our working capital requirements.

We were incorporated on June 16, 2003, through Public Deed No. 1331, as a public utility services company (*empresa de servicios públicos*) organized as a stock corporation (*sociedad anónima*) under the laws of Colombia. According to our bylaws, our term of existence expires on December 31, 2092. Upon the expiration of our term, we would be liquidated in a private proceeding and our liabilities satisfied from the proceeds thereof. Our shareholders may modify our term of existence at any time prior to its expiration. Our principal executive offices are located at Transversal 60, No. 114 A-55 Edificio Corporativo, Bogotá D.C., Colombia. Our telephone number at this location is +57(1) 705 0100. Our website is www.movistar.co. Information contained on, or accessible through, our website is not incorporated by reference in, and shall not be considered part of, this offering memorandum.

THE OFFERING

The following summary contains basic information about the notes and is not intended to be complete. It does not contain all the information that is important to you. For a more complete description of the terms and conditions of the notes, see "Description of the Notes" in this offering memorandum.

Issuer	Colombia Telecomunicaciones S.A. ESP.
Notes Offered	U.S.$500.0 million Subordinated Perpetual Notes.
Issue Price	100.000%, plus accrued interest, if any, from March 30, 2015.
Maturity	The notes are perpetual notes with no fixed final maturity date and no sinking fund provision.
Interest Rate	The notes will bear interest on their principal amount as follows: (i) from and including the issue date of such notes to but excluding the First Call Date, at the rate of 8.50% per year, payable semi-annually in arrears on each Interest Payment Date; and (ii) from and including the First Call Date to but excluding the redemption date, if any, for each Reset Period, at the relevant Five Year Swap Rate expressed as a percentage, plus the Initial Margin plus: (A) in respect of Reset Periods commencing on or after the First Call Date: 0.25%; plus (B) in respect of Reset Periods commencing on or after March 30, 2035: a further 2.75% (unless the issuer's S&P credit rating shall have been upgraded to investment grade and is effective at March 30, 2035, then such 2.75% increase shall only become effective for Reset Periods commencing on or after March 30, 2040); all as calculated by the calculation agent.
Initial Margin	6.958%.
Interest Payment Dates	Subject to our right to defer payment of interest, interest on the notes will be payable semi-annually in arrears on March 30 and September 30 of each year, as applicable, beginning on September 30, 2015.
Interest Deferral	We may, in our sole discretion, defer payment of interest that would otherwise be payable on any Interest Payment Date in whole, or in part. Interest may be so deferred by our giving written notice of our decision to do so to the trustee and holders of the notes not less than seven nor more than 14 Business Days (as defined "Description of the Notes—

	Principal and Interest Payments") before the applicable Interest Payment Date. Interest on deferred amounts will accrue from the deferred date, and arrears of interest will be compounded on subsequent Interest Payment Dates, semi-annually, at the rate of interest on the notes.
Optional Payment of Arrears of Interest..................	We may elect, in our sole discretion, to pay arrears of interest in whole or in part at any time. If we elect to do so, we will give not less than ten nor more than 14 Business Days' notice thereof to the trustee and the holders of the notes.
Mandatory Payment of Arrears of Interest	We will pay any deferred interest and all related arrears of interest, in whole (but not in part), on the notes on the first occurring Mandatory Payment Date following the Interest Payment Date on which such deferred interest first arose, as described under "Description of the Notes— Payment of Deferred Interest."
Calculation of Interest	Interest will be computed on the basis of a 360-day year of twelve 30-day months.
Ranking	The notes will be our direct, unconditional, unsecured and subordinated obligations and will rank (i) junior to all of our existing and future Unsubordinated Indebtedness, (ii) *pari passu* with all other future Subordinated Indebtedness, and (iii) senior to all existing and future classes of our Share Capital. We do not currently have any subsidiaries and the notes will not be guaranteed by any subsidiaries in the future. Claims of creditors of any Subsidiaries, to the extent we have any in the future, including trade creditors and bank and other lenders, will have priority over the holders of the notes in claims to assets of any such subsidiaries. As of December 31, 2014, our Unsubordinated Indebtedness was approximately COP$4,060,076 million (U.S.$1,697.0 million).
Holders' Acknowledgement of Subordination of Notes	Each holder of the notes agrees that (i) The Bank of New York Mellon, as trustee, will be the only party entitled to receive and distribute amounts paid in respect of the notes in the event of any Insolvency (as defined under "Description of the Notes—Payment of Deferred Interest") or Liquidation (as defined under "Description of the Notes—Events of Default") and (ii) in the event that, in connection with such proceedings, notwithstanding the subordination provisions agreed by the holders of the notes, any amount is allocated for payment to the holders of the notes prior to the payment of all of our Unsubordinated Indebtedness, any such amount received by the trustee will be distributed by the trustee, on behalf of the holders of the notes, to the creditors of any of our unsatisfied Unsubordinated Indebtedness. In furtherance of this agreement, the indenture governing the notes will provide that the trustee will have the exclusive right to file in any Insolvency or Liquidation of the issuer for the recognition of the claims of all holders of the notes. Each holder of notes irrevocably instructs the trustee to file, on

	behalf of such holder, a claim for recognition of the claims of all of the notes in such event. The indenture will provide that each holder of notes irrevocably instructs the trustee to abstain from voting during the course of any such Insolvency or Liquidation as described above of the issuer in any matter submitted for approval by our general unsecured creditors in such proceedings.
Use of Proceeds	We intend to use the net proceeds from the sale of the notes, to repay a portion of our existing short-term and long-term indebtedness with financial institutions in an amount of approximately COP$1,187,423 million (corresponding to U.S.$496.3 million of net proceeds from the sale of the notes translated at the exchange rate as of December 31, 2014 of COP$2,392.46 to U.S.$1.00). See “Use of Proceeds” in this offering memorandum.
Further Issuances	We may, from time to time, without the consent of the holders of the notes, issue additional notes on the same terms and conditions as the notes (except that the issue date, issue price and, possibly, the date upon which interest will accrue and first be paid may differ), which additional notes will increase the aggregate principal amount of, and will be consolidated and form a single series with the notes.
Optional Redemption..	On the First Call Date and on any Interest Payment Date thereafter, we have the right to redeem all, but not less than all, of the notes at our option, in whole (but not in part), at the applicable redemption price described under “Description of the Notes—Redemption and Repurchase.”
Redemption for Changes in Withholding Taxes	If a Withholding Tax Event (as defined under “Description of the Notes—Redemption and Repurchase—Redemption for Changes in Withholding Taxes”) occurs with respect to the notes, we have the right to redeem the notes in whole (but not in part) at our option at any time at the applicable redemption price described under “Description of the Notes—Redemption and Repurchase.”
Redemption upon a Substantial Repurchase Event...	In the event that at least 80% of the initial aggregate principal amount of the notes has been purchased by us or on our behalf, we may at our option redeem the notes in whole (but not in part), at the applicable redemption price described under “Description of the Notes—Redemption and Repurchase.”
Redemption following an Accounting Event............	If an Accounting Event (as defined under “Description of the Notes—Redemption and Repurchase—Redemption following an Accounting Event”) occurs with respect to the notes, we have the right to redeem the notes in whole but not in part, at the applicable redemption price described under “Description of the Notes—Redemption and Repurchase.”

Redemption for a Rating Methodology Event	If a Rating Methodology Event (as defined "Description of the Notes—Redemption and Repurchase—Redemption for a Rating Methodology Event") occurs with respect to any of the notes, we have the right to redeem the notes at our option, in whole (but not in part), at the applicable redemption price described under "Description of the Notes—Redemption and Repurchase."
Redemption for Tax Deductibility Event	If a Tax Deductibility Event (as defined "Description of the Notes—Redemption and Repurchase—Redemption for Tax Deductibility Event") occurs with respect to any of the notes, we have the right to redeem the notes at our option, in whole (but not in part), at the applicable redemption price described under "Description of the Notes—Redemption and Repurchase."
Redemption upon a Change of Control that Results in a Ratings Decline; Additional Interest	In the event that a Change of Control that results in a Ratings Decline (as each term is defined under "Description of the Notes—Redemption and Repurchase—Redemption for a Rating Methodology Event Event") occurs with respect to the notes, we have the right to redeem the notes in whole (but not in part) at our option at any time at the applicable redemption price described under "Description of the Notes—Redemption and Repurchase." If, in the event of a Change of Control that results in a Ratings Decline, we do not redeem the notes pursuant to the provisions described herein, we will permanently pay additional interest on the notes at a rate of 5.0% per annum. Unless we have redeemed the notes in connection with the occurrence of such event, the additional interest will become effective on the 90th day after the date on which Change of Control occurs that results in a Rating Decline. Accrued additional interest will be payable on the same dates and in the same manner as interest is generally paid on the notes.
Listing	We have applied to have the notes listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market.
Limited Covenants	Holders of the notes will benefit from limited covenants contained in the indenture, including only covenants to pay the redemption price, interest, deferred interest, Additional Amounts (as defined under "Description of the Notes—Payment of Additional Amounts") and arrears of interest if and when the same become due and payable (subject to deferral), as well as a reporting covenant. See "Description of the Notes—Covenants."

Limited Events of Default	Each of the following will be an "Event of Default" with respect to the notes: (i) we fail to pay interest on any note within 21 days after its due date (other than deferred interest payments, payment of which has not become mandatory under any of the circumstances described under "Description of the Notes—Payment of Deferred Interest—Mandatory Payment of Arrears of Interest"); (ii) we fail to pay the principal or premium, if any, of any note when it becomes due; or (iii) the occurrence of any Liquidation. There is no right of acceleration of the payment of principal of the notes upon the occurrence of any Event of Default described in clauses (i) and (ii) above. However, upon the occurrence of an Event of Default described in clause (iii) above, the entire principal amount of all the notes and any accrued interest and any additional amounts and arrears of interest will be automatically accelerated, without any action by the Trustee or any Holder and any principal, interest or additional amounts will become immediately due and payable. For further information and additional limitations, see "—Ranking of the Notes" and "Description of the Notes—Events of Default."
Modification and Waiver	There are three types of changes we can make to the indenture and the notes under the indenture. Certain changes require the approval of each holder of an outstanding note affected by the change, limited changes do not require the approval of holders of notes and some changes require the approval by the holders of a majority in principal amount of the applicable series notes affected by the change or waiver. See "Description of the Notes—Modification and Waiver" in this offering memorandum.
Form and Denominations	The notes will be issued in registered form, without interest coupons, in minimum denominations of U.S.$2,000 and integral multiples of U.S.$1,000 in excess thereof. Except in limited circumstances, the notes will be issued in the form of global notes. See "Description of the Notes—Form, Denomination and Title."
Trustee, Security Registrar, Paying Agent and Transfer Agent	The Bank of New York Mellon.
Luxembourg Paying Agent and Luxembourg Transfer Agent	The Bank of New York Mellon (Luxembourg) S.A.

Luxembourg Listing Agent......................................	The Bank of New York Mellon (Luxembourg) S.A.
Calculation Agent..	The Bank of New York Mellon.
Transfer Restrictions..	The notes have not been and will not be registered under the Securities Act and are subject to restrictions on transfer as described under “Transfer Restrictions.” The notes may not be offered or sold in the United States or to U.S. Persons unless the notes are registered under the Securities Act or an exemption from the registration requirements thereof is available.
Governing Law..	The indenture and the notes will be governed by the laws of the State of New York.
Risk Factors..	Before making an investment decision, prospective purchasers of notes should consider carefully all of the information included in this offering memorandum, including, in particular, the risk factors set forth under “Risk Factors” in this offering memorandum.

SUMMARY FINANCIAL AND OTHER INFORMATION

The tables in this section set forth our summary financial and other information as of and for the years ended December 31, 2014, 2013 and 2012. Our summary financial data:

- as of and for the years ended December 31, 2014 and 2013 have been derived from our 2014 audited financial statements; and
- as of and for the year ended December 31, 2012 have been derived from our 2013 audited financial statements.

Our audited financial statements have been prepared in accordance with Colombian GAAP. As of January 1, 2015, we are required to prepare our financial statements in accordance with IFRS, which differs in certain material respects from Colombian GAAP. We have not prepared audited or unaudited financial statements under IFRS in connection with this offering. See "Presentation of Financial and Other Information—Financial Statements." For a discussion of certain significant differences between Colombian GAAP and IFRS, see "Presentation of Financial and Other Information—Financial Statements—Effects of IFRS Adoption" and "Annex A – Summary of Certain Significant Differences Between Colombian GAAP and IFRS."

The financial information in this section should be read in conjunction with "Presentation of Financial and Other Information," "Selected Financial and Other Information," and "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our audited financial statements and the related notes thereto included elsewhere in this offering memorandum.

Statement of Operations

	For the year ended December 31,			
	2014	2014	2013	2012(2)
	(in millions of U.S.$)(1)		*(in millions of* pesos*)*	
Net revenues	1,939.4	4,639,999	4,200,775	3,998,868
Cost of sales and services	(780.9)	(1,868,220)	(1,688,290)	(1,629,638)
Gross profit before PARAPAT Payment Obligations	**1,158.5**	**2,771,779**	**2,512,485**	**2,369,230**
PARAPAT Payment Obligations	(122.2)	(292,452)	(148,463)	(131,389)
Gross Profit	**1,036.3**	**2,479,327**	**2,364,022**	**2,237,841**
Administrative expenses	(158.3)	(378,617)	(366,757)	(361,856)
Provisions	(33.3)	(79,790)	(65,583)	(72,545)
Selling expenses	(264.0)	(631,548)	(641,768)	(589,058)
Operating expenses	**(455.6)**	**(1,089,955)**	**(1,074,108)**	**(1,023,459)**
Operating income (loss) before depreciation and amortization	**580.7**	**1,389,372**	**1,289,914**	**1,214,382**
Depreciation of property, plant and equipment	(262.7)	(628,465)	(644,553)	(592,787)
Amortization of deferred charges	(112.9)	(269,915)	(284,412)	(258,721)
Amortization of intangibles	(64.9)	(155,388)	(287,969)	(284,593)
Depreciation and amortization	**(440.5)**	**(1,053,768)**	**(1,216,934)**	**(1,136,101)**
Operating income (loss)	**140.2**	**335,604**	**72,980**	**78,281**
Financial expenses, net	(152.1)	(363,778)	(332,830)	(370,191)
Tax on net worth			-	-
Other non-operating income, net	2.4	5,645	3,257	11,619
Other expenses, net	**(149.7)**	**(358,133)**	**(329,573)**	**(358,572)**
Loss before income tax	**(9.5)**	**(22,529)**	**(256,593)**	**(280,291)**
Income tax credit (expense)	14.2	33,843	(5,420)	(277)
Net Income (loss)	**4.7**	**11,314**	**(262,013)**	**(280,568)**

(1) Solely for the convenience of the reader, Colombian *pesos* amounts for the year ended December 31, 2014 have been translated into U.S. dollars at the exchange rate published by the Central Bank on December 31, 2014 of COP$2,392.46 to U.S.$1.00. See "Foreign Exchange Controls and Exchange Rates" for further information about recent fluctuations in exchange rates.

(2) Our financial information for the year ended December 31, 2012 gives effect to the TEMCO Merger as if it had occurred on January 1, 2012.

Balance Sheet

	For the year ended December 31,			
	2014	2014	2013	2012
	(in millions of U.S.$)(1)	*(in millions of* pesos)		
Current assets				
Cash and cash equivalents	23.4	56,091	135,657	136,373
Temporary investments	10.2	24,435	8,156	20,228
Accounts receivable	348.3	833,313	646,162	642,697
Inventories	45.0	107,635	79,559	60,485
Pre-paid expenses	5.6	13,306	11,192	16,296
Total current assets	**432.5**	**1,034,780**	**880,726**	**876,079**
Non-current assets				
Permanent investments	-	60	60	60
Accounts receivable, net(2)	475.9	1,138,650	1,012,502	981,368
Deferred charges, net(3)	244.4	584,645	613,330	708,895
Pre-paid expenses long-term	2.1	4,893	3,284	4,036
Intangible assets(4)	337.9	808,326	659,409	669,154
Property, plant and equipment, net	1,377.6	3,295,776	3,103,865	3,149,746
Other assets	-	-	279	4,381
Revaluation of assets	40.8	97,709	221,200	392,707
Total non-current assets	**2,478.7**	**5,930,059**	**5,613,929**	**5,910,347**
Total assets	**2,911.2**	**6,964,839**	**6,494,655**	**6,786,426**
Current liabilities				
Financial obligations	147.2	352,278	373,278	59,043
Accounts payable(5)	404.1	966,783	1,005,775	1,182,749
Taxes, liens and charges	61.8	147,775	147,291	146,929
Labor obligations	10.7	25,553	23,716	21,385
Accrued liabilities and provisions	117.9	282,007	380,516	269,228
Deferred liabilities	13.3	31,878	41,157	33,560
Other liabilities	18.4	44,026	32,429	59,928
Total current liabilities	**773.4**	**1,850,300**	**2,004,162**	**1,772,822**
Non-current liabilities				
Financial obligations	799.8	1,913,453	1,667,579	1,705,350
Taxes, liens and charges	76.4	182,690	-	45,603
Estimated liabilities and provisions	7.8	18,664	8,414	75,043
Deferred liabilities	87.4	208,983	153,152	167,598
Other liabilities	9.6	22,984	85,026	83,515
Bonds and securities	750.0	1,794,345	1,445,123	1,326,173
Total non-current liabilities	**1,731.0**	**4,141,119**	**3,359,294**	**3,403,282**
Total liabilities	**2,504.4**	**5,991,419**	**5,363,456**	**5,176,104**
Shareholders' equity				
Share capital	608.1	1,454,871	1,454,871	1,454,871
Surplus capital	1,416.6	3,389,267	3,389,267	3,389,267
Legal reserves	1.6	3,730	64,241	64,241
Fiscal depreciation reserve	11.0	26,330	26,298	26,298
Revaluation of equity	202.3	483,899	529,502	575,104
Valuation surplus	40.8	97,709	221,200	392,707
Net income (loss) for the year	4.7	11,314	(262,013)	(280,568)
Accumulated earnings (losses)	(1,878.3)	(4,493,700)	(4,292,167)	(4,011,598)
Total shareholders' equity	**406.8**	**973,420**	**1,131,199**	**1,610,322**
Total liabilities and shareholders' equity	**2,911.2**	**6,964,839**	**6,494,655**	**6,786,426**

(1) Solely for the convenience of the reader, Colombian *pesos* amounts as of December 31, 2014 have been translated into U.S. dollars at the exchange rate published by the Central Bank on December 31, 2014 of COP$2,392.46 to U.S.$1.00. See "Foreign Exchange Controls and Exchange Rates" for further information about recent fluctuations in exchange rates.

(2) Accounts receivable includes accounts receivable from PARAPAT related to payments made by us in connection with the termination of certain joint venture agreements entered into by Telecom and the *Teleasociadas*. As of each of December 31, 2014, December 31, 2013 and December 31, 2012, we had recorded COP$903,175 million of such PARAPAT gross accounts receivable.

(3) Deferred charges, net, include charges associated with projects under development, software licenses, improvements in third-party property and tax on net worth.

(4) Intangible assets include concessions and permits to use radio spectrum for mobile services, permits and licenses required to provide television services, other rights and licenses and assets acquired under financial leases. As of December 31, 2014, we recorded COP$698,688 million in concessions and permits. As of December 31, 2013 and 2012, we recorded COP$538,781 million and COP$501,232 million, respectively, in concessions and permits.
(5) As of December 31, 2012, our accounts payable included past-due PARAPAT Payment Obligations in the amount of COP$254,791 million.

Other Financial Information

	For the year ended December 31,			
	2014	**2014**	**2013**	**2012(2)**
	(in millions of U.S.$)(1)		*(in millions of* pesos)	
Cash flow data				
Net cash provided by operating activities	442.7	1,059,149	872,539	570,352
Net cash used in investing activities	(563.8)	(1,348,981)	(1,119,367)	(807,829)
Net cash provided by financing activities	87.9	210,266	246,112	156,083
Other financial information				
Capital expenditures (excluding licenses)	423.0	1,011,984	862,442	807,871
Licenses (radio spectrum)	123.4	295,325	268,997	—
PARAPAT Payment Obligations	122.2	292,452	148,463	131,389
EBITDA(3)	583.1	1,395,017	1,293,171	1,226,001
Adjusted EBITDA(3)	705.3	1,687,469	1,441,634	1,357,389
Adjusted EBITDA margin(4)	36.4%	36.4%	34.3%	33.9%
Net debt to Adjusted EBITDA ratio(5)	2.4	2.4	2.3	2.2

(1) Solely for the convenience of the reader, Colombian *pesos* amounts for the year ended December 31, 2013 December 31, 2014 have been translated into U.S. dollars at the exchange rate published by the Central Bank on December 31, 2014 of COP$2,392.46 to U.S.$1.00. See "Foreign Exchange Controls and Exchange Rates" for further information about recent fluctuations in exchange rates.
(2) Our financial information for the year ended December 31, 2012 gives effect to the TEMCO Merger as if it had occurred on January 1, 2012.
(3) EBITDA means: net income (loss) before depreciation and amortization; financial expenses, net and income tax. Adjusted EBITDA means EBITDA *plus*, to the extent deducted in arriving at net income (loss) for such period, the aggregate accrued PARAPAT Payment Obligations determined for such period. EBITDA and Adjusted EBITDA are not Colombian GAAP or IFRS measures, do not represent cash flow for the periods indicated and should not be considered an alternative to net income (loss), as an indicator of our operating performance or as an alternative to cash flows as a source of liquidity. Our definition of EBITDA and Adjusted EBITDA may not be comparable with EBITDA or Adjusted EBITDA as defined by other companies. Although our EBITDA and Adjusted EBITDA do not provide a Colombian GAAP or IFRS measure of operating cash flows, our management uses it as a measure of the operating performance of our operations. Our EBITDA and Adjusted EBITDA are calculated as follows:

	For the year ended December 31,			
	2014	**2014**	**2013**	**2012**
	(in millions of U.S.$)(a)		*(in millions of* pesos)	
EBITDA				
Net Income (loss)	4.7	11,314	(262,013)	(280,568)
Plus:				
Depreciation and amortization	440.5	1,053,768	1,216,934	1,136,101
Financial expenses, net	152.1	363,778	332,830	370,191
Income tax	(14.2)	(33,843)	5,420	277
EBITDA	**583.1**	**1,395,017**	**1,293,171**	**1,226,001**
Plus:				
Accrued PARAPAT Payment Obligations	122.2	292,452	148,463	131,389
Adjusted EBITDA	**705.3**	**1,687,469**	**1,441,634**	**1,357,389**

(a) Solely for the convenience of the reader, Colombian pesos amounts for the year ended December 31, 2013 December 31, 2014 have been translated into U.S. dollars at the exchange rate published by the Central Bank on December 31, 2014 of COP$2,392.46 to U.S.$1.00. See "Foreign Exchange Controls and Exchange Rates" for further information about recent fluctuations in exchange rates.

(4) Adjusted EBITDA margin represents Adjusted EBITDA divided by net revenues.
(5) Net debt means total short- and long-term financial obligations *less* cash and cash equivalents and temporary investments as of the end of the relevant period. The net debt to Adjusted EBITDA ratio is calculated as net debt as of the end of the relevant period divided by Adjusted EBITDA for the 12-month period then ended.

Other Operating Information

	As of and for the year ended December 31,		
	2014	2013	2012
Operating information			
Total mobile subscribers	12,842,498	12,121,734	11,703,632
Voice – Pre-paid subscribers	9,409,005	8,733,210	8,612,201
Voice – Post-paid subscribers	2,660,601	2,653,539	2,338,739
Mobile Data – pre-paid subscribers	173,609	85,316	63,007
Mobile Data – post-paid subscribers	599,284	649,669	689,685
Total mobile subscribers growth	5.9%	3.6%	2.7%
ARPU (per mobile subscriber, in *pesos*)	17,166	17,224	17,083
Churn rate for mobile subscribers	3.1%	3.71%	3.8%
Total fixed lines	1,461,031	1,447,059	1,420,427
Total fixed lines growth	1.0%	1.9%	(4.1)%
ARPU – Fixed-line (in *pesos*)	30,546	31,784	33,355
Churn rate for fixed-line subscribers	1.7%	1.6%	1.9%
Total Internet subscribers	959,175	850,927	703,312
Total Internet subscribers growth	12.7%	21.0%	15.4%
ARPU – Internet (in *pesos*)	34,255	37,799	43,689
Churn rate for Internet subscribers	2.1%	2.1%	2.6%
TV subscribers	415,977	347,636	284,805
TV subscribers growth	19.7%	22.1%	11.7%
ARPU – TV (in *pesos*)	34,304	31,383	27,818
Churn rate for TV subscribers	2.4%	2.6%	3.2%

RISK FACTORS

Prospective purchasers of notes should carefully consider the risks discussed below, as well as the other information, including our audited financial statements and notes thereto, included elsewhere in this offering memorandum, before deciding to purchase any notes. Our business, results of operations, financial condition and prospects could be negatively affected if any of these risks occurs and, as a result, the trading price of the notes could decline and you could lose all or part of your investment. The risk factors discussed below are not the only risks that we face, but are the risks that we currently consider to be material. There may be additional risks that we currently consider immaterial or of which we are currently unaware, and any of these risks could have similar effects to those set forth below.

Risks Relating to Our Business and the Colombian Telecommunications Industry

Competition in the mobile industry is intense and could adversely affect our business, financial condition and results of operations.

The Colombian telecommunications market is highly competitive. We face substantial competition from other integrated telecommunications companies and from other mobile and fixed-line providers, including MVNOs. We also face competition from other service providers such as cable, trunking, Internet and voice over IP companies.

For example, among other things, our competitors could provide free airtime or other services, provide subsidies for the purchase of handsets, expand their coverage or develop and deploy new-generation mobile technologies at a faster rate than us.

Competition in our markets has intensified in recent years, and we expect that it will continue to intensify in the future as a result of:

- *The entry of new competitors, the development of new technologies, products and services, and the auction of additional spectrum.* In October 2014, the Colombian government published the preliminary terms of reference for its auction of the use of the radio spectrum for mobile services in Colombia of up to 20 MHz in the 894 MHz to 905 MHz band (paired with 939 MHz to 950 MHz) and up to 5MHz in the 1850 MHz to 1990 MHz band. This auction may result in the entry of new competitors or enhance the competitive strength of our existing competitors.

- *The elimination of legal entry barriers to provide telecommunications services.* In July 2009, the Colombian government enacted Law 1341 of 2009, or Law 1341, transforming the traditional concessions regime into a general habilitation regime. Under the new regulatory framework, the provision of telecommunications services is based on a general habilitation model which allows any qualified telecommunications company to request a license in order to provide telecommunications services (except for television services, which still requires a concession), provided that certain pre-established conditions are satisfied. This general habilitation does not grant the right to use the radio-electric spectrum. This new regulatory approach has significantly eliminated legal entry barriers into the Colombian telecommunications industry and fostered competition among operators.

- *Continued competitive pressure from MVNOs.* MVNOs may enter into agreements with traditional mobile operators for the lease of their network and radio spectrum, allowing MVNOs to use these assets to provide mobile voice and data services to their own customers. As more MVNOs enter the market, they are likely to target subscribers in certain market segments with customized offers, such as Virgin Mobile, which focuses on the younger segments of the population. As of September 2014, MVNOs accounted for 4.5% of the market share for mobile subscribers in Colombia, according to information available from MINTIC. The number of MVNO subscribers has increased by 103.4% from 249,942 as of December 31, 2011 to 1,036,426 as of December 31, 2013. As of September 30, 2014, the number of MVO subscribers totaled 2,393,881.

- *The elimination of minimum stay clauses.* Regulations have been amended recently in order to ban minimum-term stay clauses, except with corporate users, which prevented subscribers from terminating mobile telecommunications services agreements before a given period of time had lapsed. Users may now terminate mobile telecommunications services agreements whenever they prefer, enabling them to move from one provider to the other as they wish.

- *Sharing of antenna facilities*. The sharing of infrastructure is a relatively new business strategy that could bolster the position of our current competitors and lower the entry barriers for new operators.

We expect these developments to lead to greater choices for subscribers and increasing ease of movement of subscribers among competitors, which may make it more difficult for us to retain subscribers or add new subscribers. The cost of adding new subscribers may also continue to increase, reducing profitability. Because the cost of acquiring new subscribers is higher than the cost of maintaining existing subscribers, subscriber deactivations result in increased costs even if we are able to obtain one new subscriber for each lost subscriber.

We also experience increasing pressure to reduce our rates in response to pricing competition. This pricing competition often takes the form of special promotional packages, which may include, among other things, special promotions and incentives for voice and data usage. Competing with the service plans and promotions offered by our competitors may cause an increase in our marketing expenses and customer acquisition costs, which may adversely affect our results of operations. Our inability to compete effectively with these packages could result in our loss of market share and adversely affect our net operating revenue and profitability.

Our ability to compete successfully will depend on our network coverage, the quality of our network and service, our rates, customer service, marketing and our ability to anticipate and respond to various competitive factors affecting the telecommunications industry, including new services and technologies, changes in consumer preferences, demographic trends, economic conditions and discount pricing strategies by competitors. If we are unable to respond to competition and compensate for declining prices by adding new subscribers, increasing usage and offering new services, our business, financial condition and results of operations could be adversely affected.

The telecommunications industry is subject to rapid technological changes, which could adversely affect our ability to compete effectively and/or affect our future financial performance.

Companies in the telecommunications industry must adapt to rapid and significant technological changes that are usually difficult to anticipate. These changes include, among others, evolving industry standards, ongoing improvements in the capacity and quality of digital technology, shorter development cycles for new products, and changes in end-user needs and preferences. New services and technological advances may offer additional opportunities to compete against us on the basis of cost, quality or functionality. It may not be practicable or cost-effective for us to replace or upgrade our installed technologies in response to competitors' actions. Responding to such change may require us to devote substantial financial resources to the development, procurement or implementation of new technologies and to write off obsolete assets relating to our existing technology.

In addition, we rely mainly on third parties to develop software applications and mobile devices with features that support new mobile data services. If we choose to purchase or invest in the development of new telecommunications technology, we cannot assure you that such new products or services will not serve as a substitute to existing products and services offered by us or that the necessary applications or devices will be developed at all or in sufficient quantities to support our deployment of new mobile data services.

If future mobile technologies that gain widespread acceptance are not compatible with the technologies we use, we may be required to make capital expenditures in excess of our current forecasts in order to upgrade and replace our technology and infrastructure.

While we have been upgrading our fixed-line networks infrastructure with technologically advanced fiber optic cable with a microwave overlay for use in our long-distance services, it is possible that alternative technologies may be developed that are more advanced than those we currently provide. Even if we adopt new technologies in a timely manner as they are developed, the cost of such technology may exceed the benefit to us, and we cannot assure you that we will be able to maintain our level of competitiveness.

In addition, the development of new services in our industry requires us to anticipate and respond to the varied and continually changing demands of our subscribers, and we may not be able to accurately predict technological trends or the success of new services in the market. For instance, television providers face increasing consumer demand for the delivery of digital video services via the Internet. We expect to continue to face increased threats from companies who use the Internet to deliver digital video services as the speed and quality of broadband and wireless networks continues to improve.

We cannot assure you as to the effect of such technological changes on us or that we will not be required to expend substantial financial resources on the development or implementation of new competitive technologies. If we are unable to meet future advances in competing technologies on a timely basis or at an acceptable cost or if these services fail to gain acceptance in the marketplace, our ability to retain and attract subscribers could be reduced, adversely affecting our business, financial condition and results of operations.

Our ability to acquire additional spectrum capacity may be limited.

We currently have licenses to use a total of 85 MHz of capacity, distributed in 25 MHz in the 850 MHz spectrum, 30MHz in the1900 MHz spectrum and 30 MHz in the AWS spectrum, which allow us to provide 2G, 3G and 4G services. Although we may participate in future auctions of radio spectrum capacity by the Colombian government if and when they occur, we may not be successful in acquiring additional capacity through this process. Radio spectrum is essential to our growth and the quality of our services, particularly for providing existing GSM and 3G services and increasing deployment of 3G and increasing deployment of 4G networks. Although we can increase the density of our network by building more cell and switch sites, thus reducing our need for additional spectrum, such measures are costly and would be subject to local restrictions and approvals, and in any event they would not fully meet our needs.

In addition, Colombian law limits mobile telecommunication operators from owning more than 85 MHz of capacity in the frequency bands between1710 MHz and 2690 MHz, and 30 MHz in the frequency bands between 698 MHz and 960 MHz. This limitation may adversely affect our ability to participate in future radio spectrum auctions, and we cannot assure you that we will be able to acquire additional capacity for our networks when and as needed or that any such acquisitions will be sufficient to meet our present or future needs.

If we are not able to acquire sufficient spectrum due to price constraints, regulations, antitrust concerns or otherwise, such failure may adversely impact our ability to maintain the quality of our services or expand our existing subscriber base, which could adversely affect our business, financial condition and results of operations.

We have substantial payment obligations under the PARAPAT Agreement.

In 2003, as part of the reorganization of Telecom, the state-owned telecommunications services provider in Colombia, we executed the PARAPAT Agreement, pursuant to which we acquired the exclusive right to use and operate the telecommunications assets previously owned by Telecom and certain affiliates of Telecom, or the *Teleasociadas*. Pursuant to the PARAPAT Agreement, the PARAPAT Payment Obligations are used by the PARAPAT to fund the obligations of the liquidated companies, including the payment of the outstanding pension obligations to the former employees of Telecom and certain affiliates of Telecom. In 2011 and 2012, we were unable to meet our PARAPAT Payment Obligations and sought an amendment of the terms and conditions of the PARAPAT Agreement with the Republic of Colombia. On December 14, 2011, the Colombian Congress authorized the Republic of Colombia to assume a portion of our future PARAPAT Payment Obligations up to an amount equal to its proportionate share of our outstanding capital stock at the time and, on March 30, 2012, we, TEMCO, PARAPAT and the MHCP executed an amendment to the PARAPAT Agreement pursuant to which the Republic of Colombia assumed the payment of 47.97% of our future PARAPAT Payment Obligations and TEMCO assumed the remaining 52.03%. See "Business—Overview of our Company—TEMCO Merger." As a result of our merger with TEMCO in June 2012, we assumed TEMCO's portion of the future PARAPAT Payment Obligations. On March 30, 2012, we also executed a payment agreement with the PARAPAT to restructure our past-due

PARAPAT Payment Obligations, which as of that date amounted to COP$664,171 million, and, on March 27, 2013, we paid the final installment of the restructured past-due PARAPAT Payment Obligations.

The PARAPAT Payment Obligation for 2014 was COP$292,452 million, for 2013 was COP$148,463 million and for 2012 was COP$131,389 million. Our ability to meet our future payment obligations under the amended PARAPAT Agreement may be adversely affected by deterioration in our operating results, as well as by factors beyond our control, including changes in the telecommunications market and general economic conditions. Accordingly, we cannot assure you that we will be able to meet those payment obligations in the future or that we will be able to incur additional indebtedness to finance these payments. In the event that we default on our PARAPAT Payment Obligations, default interest at the maximum rate permitted by Colombian law may be applied and we may not be able to continue to use all the assets owned at the time by Telecom and several of its *Teleasociadas*, that were required for the continuity of the telecommunications services provided by Telecom and the *Teleasociadas*, or the PARAPAT Assets, which may in turn materially adversely affect our business, financial condition and results of operations. See “Management’s Discussion and Analysis of Financial Condition—Factors Affecting Our Operating Results—Effects of our Payment Obligation under the PARAPAT Agreement.”

Our adoption of IFRS as of January 1, 2015 will result in the recognition of our PARAPAT Payment Obligations as liabilities on our balance sheet, among other effects on our financial statements.

As of January 1, 2015, we are required to prepare our financial statements in accordance with IFRS, which differs in certain material respects from Colombian GAAP. Recognition of PARAPAT Payment Obligations as liabilities on our balance sheet, as well as other adjustments in our financial statements as a result of our adoption of IFRS, will have an adverse effect on our financial condition. For a discussion of certain significant differences between Colombian GAAP and IFRS, see “Presentation of Financial and Other Information—Financial Statements—Effects of IFRS Adoption” and “Annex A – Summary of Certain Significant Differences Between Colombian GAAP and IFRS.”

While we have not yet prepared audited or unaudited financial statements in accordance with IFRS, that the adoption of IFRS requires certain material changes to our financial statements. One of the significant effects of IFRS adoption is the requirement that we recognize our PARAPAT Payment Obligations as liabilities on our balance sheet. These PARAPAT Payment Obligations are not currently recognized as liabilities on our balance sheet prepared in accordance with Colombian GAAP. Furthermore, under Colombian GAAP, the PARAPAT Agreement is accounted for as an operating lease, which permits us to recognize the payment of the accrued PARAPAT Payment Obligations as a cost of sales and services in our statement of operations. However, under IFRS, we will be required to recognize all PARAPAT Payment Obligations as a liability on our balance sheet, which we are not required to do under Colombian GAAP. Also, under IFRS, we will be required to recognize a portion of the accrued PARAPAT Payment Obligations for the relevant period as an interest expense in our statement of operations and a portion is required to be amortized as principal on our balance sheet, which differs from the treatment applied to this item under Colombian GAAP.

Please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Financial Presentation and Accounting Policies—Effects of IFRS Adoption,” “Summary—First-time Adoption of IFRS” and “—We expect that our adoption of IFRS will result in stockholders’ equity of less than 50% of our capital stock, which could trigger a mandatory dissolution proceeding under Colombian law” in this offering memorandum for additional information on the impact of IFRS adoption on our financial statements.

We have significant indebtedness and PARAPAT Payment Obligations.

As of December 31, 2014, we had COP$4,060,076 million (U.S.$1,697.0 million) of outstanding indebtedness (which corresponds to our financial obligations and bonds and securities), and in 2014 we had EBITDA of COP$1,395,017 million (U.S.$583.1 million) and Adjusted EBITDA of COP$1,687,469 million (U.S.$705.3 million) and our ratio of net debt to Adjusted EBITDA was 2.4. As of the same date, the financial liabilities related to the PARAPAT Agreement amounted to COP$3,972,797 million (U.S.$1,660.5 million).

Our level of indebtedness and our PARAPAT Payment Obligations may have significant negative effects on our operations, including:

- impairing our ability to obtain financing in the future for working capital, capital expenditures, acquisitions or other general corporate purposes;
- requiring us to dedicate a substantial portion of our cash flow to the payment of principal and interest on our indebtedness, which reduces the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes;
- subjecting us to the risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates, including our borrowings under our credit facilities;
- increasing the possibility of an event of default under the covenants contained in the agreements governing our indebtedness; and
- limiting our ability to adjust to rapidly changing market conditions, reducing our ability to withstand competitive pressures and making us more vulnerable to a downturn in general economic conditions or our business than our competitors with less debt.

In addition, we may incur additional debt in the future. The indenture governing the notes does not contain any restrictions on our ability to incur additional debt. Although we are subject to certain restrictions on the incurrence of additional indebtedness under the indenture governing our 5.375% senior notes due 2022, these restrictions are subject to a number of qualifications and exceptions. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Indebtedness—Long-term Indebtedness—5.375% Senior Notes due 2022.” Also, these restrictions do not prevent us from incurring obligations that do not constitute “indebtedness” as defined in the indenture to our 5.375% senior notes due 2022. Adding new debt to our current indebtedness could increase our leverage and cause the related risks that we now face to intensify.

Our ability to meet our debt service requirements and our PARAPAT Payment Obligations depends on our future performance, which is subject to a number of factors, many of which are outside our control. We cannot assure you that we will generate sufficient cash flow from operating activities to meet our debt service obligations, our PARAPAT Payment Obligations and our working capital requirements. If we are unable to generate sufficient cash flow from operations to service our debt or to meet our PARAPAT Payment Obligations, we may be required to refinance all or a portion of our existing debt, or to obtain additional financing. We cannot assure you that any such refinancing would be possible or that any additional financing could be obtained. Our inability to obtain such refinancing or financing may have a material adverse effect on us.

We expect that our adoption of IFRS will result in shareholders’ equity of less than 50% of our capital stock, which could trigger a mandatory dissolution proceeding under Colombian law.

While we have not yet prepared audited or unaudited financial statements in accordance with IFRS, we believe that the application of IFRS, and the related recognition of the PARAPAT Payment Obligations as liabilities on our balance sheet described above, will result in substantial negative shareholders’ equity. See “Summary—First-time Adoption of IFRS.” Pursuant to Articles 218 and 457 of the Colombian commercial code, negative stockholders’ equity could trigger a mandatory dissolution proceeding of our company. These articles provide that a dissolution event is triggered if the net worth of a company is less than 50% of its subscribed capital stock. The existence of such dissolution event is verified on the date the general shareholders’ meeting approves the audited financial statements for the relevant fiscal year for which such net worth is reflected. The company then has an 18-month cure period during which it may adopt any measures necessary to increase its net worth to a level of at least 50% of subscribed capital stock.

Because we are required to implement IFRS as of January 1, 2015, we expect that our audited financial statements for the year ending December 31, 2015, reflecting our recognition of the PARAPAT Payment Obligations as a liability on our balance sheet, will be approved by a general shareholders’ meeting during the first quarter of 2016. If our financial statements for the year ending December 31, 2015 reflect total shareholders’ equity of less than 50% of our subscribed capital stock, then our shareholders would have a cure period of 18 months beginning on the date of such general shareholders' meeting to take actions to increase our net worth to within acceptable levels.

While we believe that this offering, along with other actions we intend to take, will prevent us from triggering the Colombian law dissolution provisions, no assurance can be given that such actions will be effective. Among other factors that could affect the effectiveness of such actions include our ability to attribute and record on our balance sheet higher values for our net assets in connection with our implementation of IFRS and our ability to generate future profits for tax purposes, which would allow us to recognize deferred taxes with respect to tax credits from accumulated tax losses, excess of presumptive income and timing differences. For additional information regarding the effects of the adoption of IFRS, see "Presentation of Financial and Other Information—Financial Statements—Effects of IFRS Adoption" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Effects of IFRS Adoption" in this offering memorandum.

We may be required to return certain assets to the Colombian government under our mobile services concession agreements, which we terminated in November 2013. It is unclear which, if any, or how many of our assets we would be required to return.

Prior to March 2014, we had the right to use 40MHz of radio spectrum (25MHz in the 850MHz band and 15MHz in the 1900MHz band) pursuant to three concession agreements executed by TEMCO in 1994, or our Mobile Services Concession Agreements. These concession agreements contain a "reversion of assets" provision that requires us to return to the Colombian government, upon expiration of each concession, the assets directly related to the concession (*elementos y bienes directamente afectos a la concesión*).

In November 2013 we elected to convert to the general habilitation regime and accordingly we requested that the MINTIC renew our permit to use the 40MHz of radio spectrum associated with our Mobile Services Concession Agreements. In connection with this request, we were required to terminate our Mobile Services Concession Agreements, which termination was effective as of November 28, 2013. Pursuant to Colombian administrative law, upon the termination of each concession agreement, the parties are required to enter into a "liquidation agreement" (*acta de liquidación*) within six months after termination, confirming that no further obligations are outstanding under the concessions. However, on May 7, 2014, we and the MINTIC agreed to extend this term, allowing us until May 29, 2015 to enter into the relevant liquidation agreements. As part of our negotiation of these liquidation agreements, we are discussing with the MINTIC the scope of the "reversion of assets" provision.

Certain provisions of Colombian law (Article 4 of Law 422 of 1998, or Article 4, and Article 68 of Law 1341 of 2009, or Article 68), enacted after the execution of our Mobile Services Concession Agreements, state that in respect of concession agreements for telecommunication services the obligation to return assets to the Colombian government upon expiration applies only to the radio electric spectrum associated with the concession. These provisions were reviewed by the Colombian Constitutional Court, which affirmed the constitutionality of Article 4 and Article 68; however, the court further stated that for concession agreements entered into prior to the dates upon which Article 4 and Article 68 became effective (which is the case of our Mobile Services Concession Agreements), the terms of the specific reversion of assets provisions set forth in such agreements would prevail.

We cannot predict the outcome of our negotiations with the MINTIC on the "reversion of assets" provision of our terminated Mobile Services Concessions, nor can we predict the effect of the Colombian Constitutional Court's ruling on such negotiations. While the Colombian Constitutional Court case did not involve our Mobile Services Concession Agreements, it did provide, in a binding constitutional ruling, that Article 4 and Article 68 are constitutional, under the understanding that, in the case of concession agreements entered into prior to the date on which Article 4 and Article 68 became effective (which is the case of our Mobile Services Concession Agreements), the terms of the specific reversion of assets provisions set forth in such agreements would prevail. However, it is unclear how an administrative judge, a governmental authority (including the MINTIC) or an arbitral tribunal would apply such decision to our Mobile Services Concession Agreements.

In our opinion, the "reversion of assets" terms of our Mobile Services Concession Agreements should be interpreted to incorporate the meaning of Article 4 and Article 68; however, the MINTIC may have a different view and may ultimately seek to require us to return not only the radio electric spectrum, but other assets it deems directly tied to the concession. If we are required to return other assets in addition to the radio electric spectrum, the MINTIC could demand the economic equivalent value of those other assets. Such “reversion of assets” could have a material adverse effect on our financial condition and results of operations. Furthermore, it is unclear, in the case of any such reversion of assets, how such obligation would be executed.

In the event that we do not reach an understanding with the MINTIC in this regard, we or the MINTIC may initiate arbitration proceedings under Colombian law before an ad hoc tribunal. We cannot assure you that the outcome of any such arbitration proceeding will be favorable to us and an unfavorable outcome could have a material adverse effect on our financial condition and results of operations.

In addition, the MINTIC may also elect to unilaterally liquidate our Mobile Services Concession Agreements, which could prevent us from commencing an arbitration proceeding. Although we may challenge the terms of the unilateral liquidation in the Colombian administrative court system, we cannot assure you that the outcome of any such proceeding will be favorable to us, and an unfavorable outcome could have a material adverse effect on our financial condition and results of operations.

We require government permits, concessions and licenses to operate. The modification, revocation or failure to renew such permits, concessions and licenses could limit or prevent our ability to operate, which would likely adversely impact our revenues and our operations.

We require permits for the use of radio-electric and radio-magnetic spectra, which we use in the operation of our networks. We provide telecommunications services pursuant to a general habilitation regime under Law 1341, except for television services, which we provide under a concession agreement that expires in 2017. In March 2014, the MINTIC issued Resolution 597 of 2014, pursuant to which it renewed for 10 years our permits for the use of 25MHz in the 850 MHz band and 15MHz in the 1900MHz band. These permits expire on March 28, 2024. In addition, we have a permit for the use of an additional 15MHz in the 1900MHz band that was granted in 2011 and expires on October 20, 2021, and a permit for the use of 30MHz in the AWS band that was granted in June 2013 and expires on December 2, 2023. As a result, our permits for mobile services under the general habilitation regime currently allow us to use a total of 25 MHz in the 850 MHz band, 30 MHz in the 1900 MHz band and 30 MHz in the AWS band.

These permits, concessions and licenses specify operating conditions that we must meet, including the types of services we are permitted to offer and minimum specified quality and service conditions. Upon certain circumstances, they are subject to review, interpretation, modification or termination by the MINTIC. Failure to comply with the terms of such permits, concessions or licenses could result in the imposition of fines, or revocation or forfeiture of our ability to operate thereunder. We cannot assure you that we will be able to comply fully with the terms and conditions of these permits, concessions and licenses. A loss of any of the above described permits, concessions or licenses could adversely impact our results of operations. Any non-renewal, revocation or modification of any of our governmental permits, concessions or licenses may adversely impact our operations and our revenues and financial condition.

While we currently believe we are in compliance with applicable law and the terms and conditions of our concessions and licenses, we cannot assure you that we will continue to be able to do so in the future. Any fines or the suspension or termination of our permits, concessions and licenses would likely have a material adverse effect on our business, financial condition and results of operations.

We have incurred losses in the past and have a history of negative working capital. We expect to become profitable in the future but are unable to predict when or whether this will occur.

We have historically incurred losses and had an accumulated deficit of COP$4,493,700 million as of December 31, 2014. In 2014, we recorded net income of COP$11,314 million and had negative working capital of COP$815,520 million as of December 31, 2014. In 2013 and 2012, we incurred net losses of COP$262,013 million and COP$280,568 million, respectively, and had negative working capital of COP$1,123,436 million as of December 31, 2013, and COP$896,743 million as of December 31, 2012. We and our shareholders have continually evaluated measures to be adopted to strengthen our financial condition, which have included, among others, the approval of our merger with TEMCO, the renegotiation of our PARAPAT Payment Obligations, the issuance of our

U.S.$750.0 million 5.375% senior notes due 2022 and the renegotiation of the terms of a portion of our outstanding indebtedness. Although we expect to become profitable and have positive working capital in the future, we are unable to predict when this will occur or whether this will occur. Furthermore, we cannot assure you that we will be able to successfully execute our business strategy or that the measures adopted by us will have the expected results.

We may be unable to implement our plans to expand and enhance our existing mobile networks in a timely manner or without unanticipated costs, which could hinder or prevent the successful implementation of our business plan, having an adverse effect on our business, financial condition and results of operations.

Our ability to achieve our strategic objectives relating to our mobile services depends in large part on the successful, timely and cost-effective implementation of our plans to expand and enhance our mobile networks. Factors that could affect this implementation include:

- our ability to generate cash flow or to obtain future financing necessary for the implementation of our projects, including capital expenditures related to the deployment of our 4G network;
- delays in the delivery of telecommunications equipment by our vendors;
- the failure of the telecommunications equipment supplied by our vendors to comply with its expected capabilities; and
- delays resulting from the failure of third-party suppliers or contractors to meet their obligations in a timely and cost-effective manner.

Although we believe that our cost estimates and implementation schedule are reasonable, we cannot assure you that the actual costs or time required to complete our projects will not substantially exceed our current estimates. Any significant cost overrun or delay could hinder or prevent the successful implementation of our business plan and result in revenues and net income being less than expected.

Our fixed-line telecommunications services face increased competition from mobile service providers and other fixed-line service providers, which may adversely affect our revenues and margins.

Our fixed-line telecommunications services face increasing competition from mobile services as the prices for mobile services fall below those of fixed-line services. We expect the number of fixed lines in service to continue to decline or stagnate, as certain customers eliminate their fixed-line services in favor of mobile services, and the use of existing fixed lines to decrease as customers substitute fixed-line calls with calls from mobile telephones as a result of lower mobile rates. The rate at which the number of fixed lines in service in Colombia may decline depends on many factors beyond our control, such as economic, social, technological and other developments in Colombia.

We also compete in the market for fixed-line services with other fixed-line service providers, primarily Colombia Móvil, ETB and Claro Colombia. In addition to direct competition, we also face competition from other providers of value-added services that offer VoIP and other Internet-based telephony. Our loss of a significant number of fixed-line customers would adversely affect our operating revenue and may adversely affect our results of operations.

We face competition from satellite television providers, cable companies and telecommunications companies, especially as the subscription television industry matures, which may require us to increase subscriber acquisition and retention spending or accept lower subscriber activations and higher subscriber churn.

We provide subscription satellite television services and have traditionally competed against other satellite television providers and cable companies, some of whom have greater financial, marketing and other resources than we do. Many of these competitors also offer video services bundled with broadband, telephony services, HD program offerings and video on demand services that consumers may find attractive.

Moreover, mergers and acquisitions, joint ventures and alliances among cable television providers, telecommunications companies and others may result in, among other things, greater financial leverage and increase the availability of offerings from providers capable of bundling television, broadband and telephone services in competition with our services. We and our competitors increasingly must seek to attract a greater proportion of new subscribers from each other's existing subscriber bases rather than from first-time purchasers of subscription television services. In addition, because other subscription television providers may be seeking to attract a greater proportion of their new subscribers from our existing subscriber base we may be required to increase retention spending.

In addition, we believe that the availability and extent of HD programming is a differentiating factor in consumers' choice among subscription television providers. Other subscription television providers may be better equipped and have greater resources to increase their HD program offerings in response to increasing consumer demand for HD content. In addition, even though it remains a small portion of the market, consumer demand for 3D and 4K content (equivalent to ultra HD) will likely increase in the future. We may be required to make substantial additional investments in infrastructure to respond to competitive pressure to deliver additional programming, and there can be no assurance that we will be able to compete effectively with programming offerings from other subscription television providers. Additionally, new over-the-top, or OTT, services (delivery of audio, video, and other media over the Internet without the involvement of a multiple-system operator in the control or distribution of the content), such as Netflix®, are available and gaining momentum in the market.

Some of our services are subsidized. If the level of our subsidized services increases or collection of subsidies due to us is delayed or impaired, our liquidity could be reduced and we could experience losses.

Law 142 of 1994, the Residential Public Utility Services Framework, (*Régimen de Servicios Públicos Domiciliarios*) established a system of tariff rebalancing to which our basic charges and local usage charges for local telephone services are subject. Pursuant to this system, any given household was placed into one of six levels based on the average household income in the neighborhood in which the relevant household is located, with level 1 corresponding to the lowest income levels and level 6 corresponding to the highest income levels. Households that were categorized as level 4 are considered to be neutral, meaning that they neither give nor receive subsidies. Revenues were recorded based on the level 4 rate. Households that were placed in levels 5 and 6 and commercial and governmental subscribers were required to be charged not less than 20% over the level 4 rate. Operators could not provide more than the specified amount of monthly service at subsidized rates and the level of subsidies, as a percentage of the level 4 rate, could not exceed 50%, 40% and 15% for levels 1, 2 and 3, respectively.

In 2009, this subsidized regime was eliminated. However a transition period was implemented in order to continue to subsidize users of levels 1 and 2 for a period of 5 years, which expires in 2015. This subsidy is paid directly by providers of local telephone services, and by the Information and Communications Technology Fund (*Fondo de Tecnologías de la Información y las Comunicaciones*, or FTIC), which is administered by the MINTIC, from the contributions that all local telephone service operators in Colombia are required to make when the regulatory fee is not sufficient to pay the subsidy. Each operator calculates, on a quarterly basis, the amount of its contribution to the FTIC and the amount of subsidies (amounts below the level rate) provided to its subscribers in levels 1 and 2. If the amount of the subsidies exceeds the contribution, the Colombian government pays the difference directly to the relevant operator. The MINTIC, with the support of the CRC, verifies the correct application of the subsidies.

We cannot assure you whether, or on what schedule, we will fully collect these amounts or any additional subsidies that become due to us in the future. In addition, the payment of any such amounts may be subject to appropriation or budgeting approvals or requirements or to regulatory or legal constraints which may further delay or prevent the payment of any such amounts.

A significant number of our customers purchase services from us on a pre-paid basis and therefore we are exposed to higher risk of customer churn and ARPU sharing.

Pre-paid subscribers represented 74.6% of our customers as of December 31, 2014. Because our pre-paid customers do not enter into service contracts, our pre-paid customer base is more susceptible to switching mobile service providers. Many of our customers are first-time users of mobile telecommunications services, who have a tendency to migrate among service providers more frequently than established users. To the extent our competitors offer incentives to switch wireless service providers, through eliminating connection fees and/or subsidizing or giving away handsets, the risk of churn increases. Our monthly churn for pre-paid subscribers in 2014, 2013 and 2012 was 3.5%, 4.5% and 4.4%, respectively. Our inability to retain existing pre-paid customers and manage churn levels could have a material adverse effect on our business, financial condition and results of operations.

ARPU sharing is common in Colombia, and occurs when a pre-paid customer uses SIM cards from multiple providers to avoid paying higher prices for calls made to numbers outside of a particular network, or off-net calls. Historically, off-net calls have been more expensive than calls made to numbers within a particular network, or on-net calls. As a result, many pre-paid customers in Colombia engage in ARPU sharing, which has negatively affected our revenues with respect to our pre-paid customers who use our network as their primary service provider.

An increase in the regulation of bundled services may prevent us from leveraging our integrated operations to offer and market our services.

We are one of the few telecommunications operators in Colombia that owns both a fixed-line and mobile network and provides subscription television services, which enables us to offer telephone, Internet and television services as part of a bundled service plan at more attractive rates than those offered by other telecommunications operators in the market. In February 2014, the CRC initiated a review process of the offerings of bundled services, as it believes that operators that provide a wide range of services through their network and those who offer fixed-line and mobile telecommunications services have a competitive advantage difficult to replicate by other market operators, which may adversely affect fair competition. The CRC could require us to offer wholesale services to our competitors at regulated prices, thus limiting or eliminating our ability to profit from the convergence of telecommunications services. The CRC could also prevent us from offering bundled services to our residential customers, requiring us to offer certain services, such as broadband Internet, on a stand-alone basis if customers so prefer. Such regulations could adversely affect our business and results of operations. As of the date of this offering memorandum the aforementioned regulations have not been enacted.

A system failure could cause delays or interruptions of service, which could cause us to incur fines and lose subscribers.

We rely on our network infrastructure and technology systems for our operational, support and sales activity. Some of the risks to our network and infrastructure include:

- physical damage to infrastructure and networks from natural disasters such as earthquakes, tsunamis, floods and volcanic eruptions, among others;
- power surges or outages;
- software defects;
- software or connection disruptions beyond our control;
- limitations on the use of our radio bases;
- breaches of security such as intentional acts of vandalism and theft, including intentional cuts in our fiber optic network in rural areas and transmission of computer viruses; and
- disruptions due to changes in obsolete equipment.

Our operations also rely on a stable supply of utilities. We cannot assure you that future supply instability or interruptions will not impair our ability to procure required utility services in the future, which could adversely impact our operations.

Damage to or loss of our equipment, or unanticipated network interruptions as a result of system failures, whether accidental or otherwise, including network, hardware or software failures, that affect the quality of, or cause an interruption in, our service could result in customer dissatisfaction, reduced revenues and traffic, costly repairs and could harm our reputation. Customers could also assert claims for damages resulting from lost service and are entitled to receive a compensation for the time that the service was not available, which may vary if the customer is a pre-paid customer or a post-paid customer. As a result, prolonged service interruptions could affect our business.

We could be adversely affected if major suppliers fail to provide needed equipment and services on a timely basis.

We rely on a few strategic suppliers, including Nokia Siemens Networks, Alcatel-Lucent, Ericsson and Huawei, to provide us with equipment, materials and services that we need in order to expand and to operate our business. There are a limited number of suppliers with the capability of providing the mobile network equipment and fixed-line network platforms that our operations and expansion plans require or the services that we require to maintain our extensive and geographically widespread networks. In addition, because the supply of mobile network equipment and fixed-line network platforms requires detailed supply planning and this equipment is technologically complex, it would be difficult for us to replace the suppliers of this equipment. Suppliers of cables that we need to extend and maintain our networks may suffer capacity constraints or difficulties in obtaining the raw materials required to manufacture these cables.

We also depend on network installation and maintenance services providers, equipment suppliers, call centers, collection agencies and sales agents for network infrastructure, handsets and services to satisfy our operating needs. Many suppliers rely heavily on labor; therefore, any work stoppage or labor relations problems affecting our suppliers could adversely affect our operations. Suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own shortages and business requirements. Similarly, interruptions in the supply of telecommunications equipment for networks could impede network development and expansion. If these suppliers fail to deliver products and services on a timely basis that satisfies our demands, we could experience disruptions, which could have an adverse effect on our business, financial condition and results of operations.

We are subject to delinquencies on our accounts receivable. If we are unable to limit payment delinquencies by our customers, or if delinquent payments by our customers increase, our financial condition and results of operations could be adversely affected.

Our business significantly depends on our customers' ability to pay their bills and comply with their obligations to us. In 2014 and 2013, we recorded provisions for doubtful accounts in the amount of COP$76,972 million and COP$65,288 million, respectively, in each period primarily due to subscriber delinquencies. Our provision for doubtful accounts as a percentage of our net revenues was 1.7% as of December 31, 2014 and 1.6% as of December 31, 2013.

The MINTIC and the CRC regulations prevent us from implementing certain policies that could have the effect of reducing delinquency, such as service restrictions or limitations on the types of services provided based on a subscriber's credit record. If we are unable to successfully implement policies to limit subscriber delinquencies or otherwise select our customers based on their credit records, persistent subscriber delinquencies and bad debt will continue to adversely affect our operating and financial results.

In addition, if the Colombian economy declines due to, among other factors, a reduction in the level of economic activity, depreciation of the Colombian *peso*, an increase in inflation or an increase in domestic interest rates, a greater portion of our customers may not be able to pay their bills on a timely basis, which would require an increase our provision for doubtful accounts and adversely affect our financial condition and results of operations.

We may incur significant losses from wireless fraud.

We incur losses and costs associated with the unauthorized use of our mobile network. These costs include administrative and capital costs associated with detecting, monitoring and reducing the incidence of fraud. Fraud also affects interconnection costs, capacity costs, administrative costs and payments to other carriers for unbillable fraudulent roaming. Although we seek to combat this problem through the deployment of anti-fraud technologies and other measures, we cannot assure you that these efforts will be effective or that fraud will not result in material costs for us in the future.

Any increase in the improper use of our network in the future could materially adversely affect our business, financial condition and results of operations.

Our operations depend on our ability to maintain, upgrade and efficiently operate accounting, billing, customer service, IT and management information systems.

Sophisticated information and processing systems are vital to our growth and our ability to monitor costs, render monthly invoices for services, process customer orders, provide customer service and achieve operating efficiencies. The proper functioning of our accounting information and processing systems is critical to our business and our ability to compete effectively. We cannot assure you that we will be able to successfully operate and upgrade our accounting, information and processing systems or that they will continue to perform as expected. Any failure in our accounting, information and processing systems could impair our ability to collect payments from customers and respond satisfactorily to customer needs, which could adversely affect our business, financial condition and results from operations.

We have backup data for our key information and data processing systems that may be used in the event of a catastrophe or a failure of our primary systems, and have established alternative communication networks where available. However, we cannot assure you that our business activities would not be materially disrupted if there were a partial or complete failure of any of these primary IT systems or communication networks. Such failures could be caused by, among other things, software bugs, computer virus attacks or conversion errors due to system upgrading. In addition, any security breach caused by unauthorized access to information or systems, or intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment, could have a material adverse effect on our business, results of operations and financial condition.

Our ability to remain competitive and achieve further growth will depend in part on our ability to upgrade our IT systems and increase our capacity on a timely and cost effective basis. Any substantial failure to improve or upgrade IT systems effectively or on a timely basis could materially and adversely affect our competitiveness, results of operations and financial condition.

We are subject to adverse developments in the global economy, which may constrain credit markets.

The downturn in the world's major economies over the past several years and the constraints in the credit markets have heightened, and could continue to heighten, a number of material risks to our business, results of operations and financial condition, as well as our future prospects. Continued weakness in, and uncertainty about, global economic conditions, and in particular the economic conditions in the United States, could cause businesses to postpone spending in response to tighter credit, negative financial news or declines in income or asset values, which could have a material adverse effect on the demand for goods and international trade which, in turn, could adversely affect the demand for products related to crude oil and gas.

The economic problems that affected the banking system and financial markets and the recent uncertainty in global economic conditions resulted in a number of adverse effects including tightening in the credit markets, a low level of liquidity in many financial markets, extreme volatility in credit, equity, currency and fixed income markets, instability in the stock market and high unemployment.

Our controlling shareholder may exercise its control in a manner that differs from your interests as a noteholder.

We are controlled by Telefónica which, as of December 31, 2014, directly and indirectly held 70% of our outstanding voting shares. Telefónica, through Telefónica Internacional, is party to the Investment Agreement, which sets forth, among other matters, provisions relating to our governance, including the composition of our board of directors and certain matters for which a favorable vote of Telefónica Internacional, the Republic of Colombia and certain minority shareholders is required. Pursuant to the terms of the Investment Agreement, Telefónica has, among others, the ability to elect a majority of our directors. Other than with respect to the matters regulated by the

Investment Agreement, Telefónica has the ability to determine certain other actions that require our directors' approval, including decisions related to our business strategy and our operations. Telefónica may exercise this control in a manner that differs from your interests as a noteholder. In addition, since a variety of decisions related to our business are confirmed with Telefónica, including those relating to branding and purchases of handsets, we may experience delays in making certain business decisions as a result of our corporate structure.

We could be vulnerable to the current disruptions and volatility in the Eurozone. Any downgrading of Spain's debt credit rating for domestic and international debt and/or our parent company's ratings by international credit rating agencies may also affect our rating, our business, and our future financial performance, our stockholders' equity and the value of our securities.

The Eurozone experienced difficulty in accessing credit, weak liquidity conditions and market disruptions, further leading to uncertainty, greater volatility and general economic weakening. In the past, these conditions have prevailed in Spain, where Telefónica is incorporated. Events such as the downgrading of the long-term sovereign debt of France, Spain and other European Union countries and the debt crisis that affected Spain, Portugal, Greece and Italy have contributed to financial weakness and volatility on a global scale.

Although Spain's credit rating was recently upgraded by Standard & Poor's, any adverse revisions to Spain's credit ratings by international rating agencies may adversely affect the credit ratings, business and future financial performance of Telefónica, our ultimate parent company. If Telefónica's credit ratings are revised downwards, either due to lower solvency or operating performance, or as a result of a downgrade in the rating for Spanish sovereign risk by rating agencies, our credit ratings, business, future financial performance, stockholders' equity and the value of our securities may be adversely affected. We cannot assure you that the improved economic condition of Spain will result in better financial opportunities, lower credit costs and greater possibilities for expansion into international markets.

We have significant transactions with related parties.

We engage in transactions with numerous related parties for the provision of services or sales of equipment. See "Related Party Transactions." In 2014, we recorded total expenses with related parties of COP$200,369 million. Most of these transactions occur in the ordinary course of business and are entered into on similar terms to those customarily prevailing in the market. While we believe such transactions have been and will continue to be negotiated on an arm's length basis as required by our by-laws and the Investment Agreement, there can be no assurance that such transactions could not give rise to conflicts of interest that could adversely affect our financial condition and results of operations, and, as a result, impair our ability to make payments under the notes.

In addition, Telefónica has licensed to us the use of the *Movistar* brand name and certain other intellectual property that is material to our business. These licenses are renewed automatically every year unless they are terminated by either party upon written notice. These licenses may also be terminated by Telefónica in the event of a change of control affecting us. If these licenses are terminated and we are required to change our brand name, we would incur significant costs that could negatively affect our business, financial condition and results of operations. See "Related Party Transactions."

The intellectual property rights utilized by us, our suppliers or service providers may infringe on intellectual property rights owned by others.

Some of our products and services use intellectual property that we own or license from third parties. We also provide content services we receive from content distributors, such as ring tones, text games, video games, wallpapers or screensavers, and outsource services to service providers, including billing and customer care functions, that incorporate or utilize intellectual property. We and some of our suppliers, content distributors and service providers have received, and may receive in the future, assertions and claims from third parties that the products or software utilized by us or our suppliers, content distributors and service providers infringe on the patents or other intellectual property rights of these third parties. These claims could require us or an infringing supplier, content distributor or service provider to cease engaging in certain activities, including selling, offering and providing the relevant products and services. Such claims and assertions could also make us subject to costly litigation and significant liabilities for damages or royalty payments, or require us to cease certain activities or to cease selling certain products and services.

We are subject to numerous legal and administrative proceedings, which could adversely affect our business, results of operations and financial condition.

We are currently involved in various legal and administrative proceedings, which could result in unfavorable decisions or financial penalties against us. We will continue to be subject to legal proceedings, which could have material adverse consequences on our business. Although we believe that we have established adequate provisions for these legal proceedings, there are some legal proceedings with respect to which we have not established provisions based on our assessment of an adverse outcome in these legal proceedings.

As of December 31, 2014, we were party to civil, administrative, tax, social security, labor, antitrust, governmental and arbitration proceedings in an aggregate amount of COP$1,917,520 million and had provisioned COP$44,333 million for probable losses relating to these claims and proceedings. If we are subject to unfavorable decisions in any legal or administrative proceedings and the losses in those proceedings significantly exceed the amount for which we have provisioned or involve proceedings for which we have made no provision, our results of operations and financial condition may be materially adversely affected. For more information regarding the legal claims against our company, see "Business—Legal Proceedings" and note 29 to our audited financial statements included elsewhere in this offering memorandum.

Our insurance coverage may not adequately cover losses resulting from the risks for which we are insured.

We maintain insurance policies for our network facilities and all of our corporate assets. This insurance coverage protects us in the event we suffer losses resulting from theft, fraud, expropriation, natural disasters or other similar events or from business interruptions caused by such events. In addition, we maintain insurance policies for our directors and officers. We cannot assure you, however, that such insurance will be sufficient or will adequately cover potential losses.

Labor relations may negatively impact our business, financial condition and results of operations.

As of December 31, 2014, we had 4,110 employees, of which only six were unionized with an external organization that is not affiliated with us. Although we currently enjoy good relations with our employees, we cannot assure you that labor relations will continue to be positive or that a deterioration in labor relations will not materially and adversely affect our business, financial condition or results of operations. In addition, new regulations or changes in existing labor laws may adversely affect our business, financial condition and results of operations.

Concerns about health risks relating to the use of mobile handsets and base stations may adversely affect our business.

Portable communications devices have been alleged to pose health risks, including cancer, due to radio frequency emissions from these devices. Lawsuits have been filed in the United States against certain participants in the mobile industry alleging various adverse health consequences as a result of mobile phone usage, and our businesses may be subject to similar litigation in the future. Research and studies are ongoing, and we cannot assure you that further research and studies will not demonstrate a link between radio frequency emissions and health concerns. Any negative findings in these studies could adversely affect the use of mobile handsets and, as a result, our future financial performance. In the past, Colombian courts have limited the installation of certain wireless networks under the assumption that there is no decisive evidence that radio frequency emissions do not pose health risks. The MINTIC has recently published draft regulation that, if enacted, would require us to regularly measure our frequency emissions and would establish additional requirements for the installation of wireless infrastructure.

Fluctuations in the value of the* peso *against the U.S. dollar could adversely affect our financial condition and results of operations.

We are affected by fluctuations in the *peso* and certain other currencies relative to the U.S. dollar. The costs of a substantial portion of the network equipment and handsets that we purchase for our capital expenditure projects, which we recognize over time through depreciation and amortization, are U.S. dollar-linked or, to a lesser extent, denominated in U.S. dollars. These network equipment and handsets are recorded on our balance sheet at their cost in Colombian *pesos* based on the applicable exchange rate on the date the transfer of ownership, risks and rewards related to the purchased equipment and handset occurs. As a result, depreciation of the *peso* against the U.S. dollar results in the network equipment and handsets being more costly in *pesos* and leads to higher depreciation charges following the acquisition of the assets.

As of December 31, 2014, our U.S. dollar-denominated indebtedness represented 62.9% of our outstanding indebtedness, 18.7% of which is linked to London Interbank Offered Rate, or LIBOR (considering the effect of our hedging transactions). When the peso depreciates against the U.S. dollar, the interest costs on our U.S. dollar-denominated indebtedness increase in peso terms, the amount of our U.S. dollar-denominated indebtedness increases in peso terms, our total liabilities and debt service obligations in pesos increase and our net financial expenses tend to increase as a result of foreign exchange losses that we must record, each of which negatively affects our results of operations. For instance, in 2014, the Colombian peso depreciated against the U.S. dollar by 24.2%, as a result of which we recorded COP$1,004 million in foreign exchange losses during the same year. Furthermore, exchange rate volatility may adversely affect the Colombian economy and may also result in disruption of certain countries' foreign exchange markets and may limit our ability to transfer or to convert such currencies into U.S. dollars and euros for the purpose of making timely payments of interest and principal on our indebtedness.

Our financial condition and results of operations may be adversely affected if we do not effectively manage our exposure to foreign currency exchange rate risk and interest rate risk.

We are exposed to market risks in the normal course of our business and, in particular to the impact of changes in interest rates and foreign currency exchange rates. We use a variety of strategies to manage these risks, mainly through the use of financial derivatives, which themselves are susceptible to risks, including counterparty risk. Our risk management strategies may not achieve their desired effect, which could adversely affect our business, financial condition and results of operations. For a more detailed description of our derivatives transactions, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures about Market Risk" and note 21 to our audited financial statements included elsewhere in this offering memorandum.

Risks Relating to Colombia

Our assets are located in, and our revenues and cash flows are derived from, Colombia, making us highly dependent on economic and political conditions in Colombia.

Our assets are located in, and our revenues and cash flows are derived from, Colombia and denominated in Colombian *pesos*. Accordingly, our financial condition and results of operations depend significantly on macroeconomic and political conditions prevailing in Colombia. Decreases in the growth rate, periods of negative growth, increases in inflation, changes in law, regulation, policy, or future judicial rulings and interpretations of policies involving exchange controls and other matters such as (but not limited to) currency depreciation, inflation, interest rates, taxation, banking laws and regulations and other political or economic developments in or affecting Colombia may affect the overall business environment and may, in turn, impact our financial condition and results of operations.

Colombia's fiscal deficit and growing public debt could adversely affect the Colombian economy. The Colombian fiscal deficit was 3.3% of GDP in 2010, 2.0% of GDP in 2011, (0.3)% of GDP in 2012 and 0.9% of GDP in 2013. In addition, the U.S. dollar/Colombian peso exchange rate has shown some instability in the last four years, particularly with the Colombian peso experiencing significant fluctuations during the last 12 months. For instance, the Colombian peso depreciated by 1.5% against the U.S. dollar in 2011, appreciated by 9.0% during 2012, depreciated again by 9.0% during 2013, and further depreciated by 24.2% during 2014. Amid current uncertainty regarding global liquidity conditions, possible interest rate increases in the United States and the stability of oil prices, we cannot assure you that measures recently adopted by the Colombian government and the Central Bank will suffice to control this instability.

Despite the recovery of Colombia's economy over the past four years, with a GDP growth rate average of 4.8% between 2010 and 2013 and a GDP growth of 5.0% during the nine-month period ended September 30, 2014, we cannot assure you as to whether current growth and relative stability will be sustained. If the condition of the Colombian economy were to deteriorate, we would likely be adversely affected.

The Colombian government frequently intervenes in Colombia's economy and from time to time makes significant changes in monetary, fiscal and regulatory policy. Our business and results of operations or financial condition may be adversely affected by changes in government or fiscal policies, and other political, diplomatic, social and economic developments that may affect Colombia. We cannot predict what policies will be adopted by the Colombian government and whether those policies would have a negative impact on the Colombian economy or our business and financial performance.

The Colombian government and the Central Bank may seek to implement new policies aimed at controlling further fluctuation of the *peso* against the U.S. Dollar and fostering domestic price stability. The Central Bank may impose certain mandatory deposit requirements in connection with foreign-currency denominated loans obtained by Colombian residents, including us. Although no mandatory deposit requirement is currently in effect, a mandatory deposit requirement was set at 40.0% in 2008 after the Colombian *peso* appreciated against foreign currencies. We cannot predict or control future actions by the Central Bank in respect of such deposit requirements, which may involve the establishment of a different mandatory deposit percentage. The use of such measures by the Central Bank may be a disincentive for us to obtain loans denominated in a foreign currency. We cannot predict the effects that such policies will have on the Colombian economy. In addition, we cannot assure you that the Colombian *peso* will not depreciate or appreciate relative to other currencies in the future.

Colombian government policies will likely significantly affect the economy and, as a result, our business and financial condition.

Market prices of securities issued by Colombian companies, including us, are subject to the prevailing economic conditions in Colombia. The Colombian government has historically exercised substantial influence over the Colombian economy, and its policies are likely to continue to have an important effect on Colombian entities (including us), market conditions, prices and rates of return on Colombian securities. Our business and financial condition could be adversely affected by changes in policy, or future judicial interpretations of such policies, involving exchange controls and other matters such as currency devaluation, inflation, interest rates, taxation, telecommunications laws and regulations and other political or economic developments in or affecting Colombia.

We have no control over the extent and timing of government intervention and policies. The investment and security climate in the country will continue to be tied to how the results and performance of the incumbent administration and the application of its economic, security and social policies are perceived by foreign investors.

Although Colombia has maintained a stable economic growth since 2003 and an average inflation rate below 5% during the last 10 years, in the past, economic growth has been negatively affected by lower foreign direct investment and high inflation rates and the perception of political instability. If the perception of improved overall security in Colombia deteriorates or if foreign direct investment declines, the Colombian economy may face a downturn, which could negatively affect our financial condition and results of operations.

Economic developments in other emerging market countries or the United States may affect our financial condition and results of operations.

Many Latin American countries are emerging market countries and have a history of political, social and economic instability. Investing in emerging markets generally poses a greater degree of risk than investment in more mature market economies because the economies in the developing world are more susceptible to destabilization resulting from domestic and international developments.

Our revenue is derived primarily from the sale of telecommunications services, and the demand for these services is largely driven by the economic conditions of Colombia. Yet, our results of operations and financial condition are to a large extent dependent upon the overall level of economic activity and political and social stability in surrounding emerging market countries. Should economic conditions deteriorate in Colombia or in emerging markets generally, we could be materially and adversely affected.

A significant decline in the economic growth of any of Colombia's major trading partners, such as the United States and Venezuela, could have a material adverse impact on Colombia's balance of trade and adversely affect Colombia's economic growth. The United States is Colombia's largest export market. A decline in U.S. demand for imports could have a material adverse effect on Colombian exports and Colombia's economic growth, which would, in turn, likely have detrimental results on our business activities. In addition, because international investors' reactions to the events occurring in one emerging market country sometimes appear to demonstrate a "contagion" effect, in which an entire region or class of investment is disfavored by international investors, Colombia could be adversely affected by negative economic or financial developments in other emerging market countries.

In the past, Colombia has been adversely affected by such contagion effects on a number of occasions, including following the 1997 Asian financial crisis, the 1998 Russian financial crisis, the 1999 devaluation of the Brazilian real and the 2001 Argentine financial crisis. Furthermore, the world financial crisis of 2008, the sovereign debt crises in certain European countries in 2011 and the recent political and economic actions in the Latin American region, including Argentina, may negatively affect the perception of the region. In the past, as a result of crises in other countries, flows of investments into Colombia have been reduced. Crises in other countries, especially in emerging market countries, may hamper investor enthusiasm for securities of Colombian issuers. If Latin America experiences a new slow-down or if the price for securities of Latin American issuers falls, the market for the notes could follow this trend and could be adversely affected. We cannot assure you that growth achieved over the past decade in the Colombian economy will continue in future periods.

Although inflation has remained within the Central Bank's target range since 2011, inflation rates may be subject to volatility and upward pressure. Therefore, we cannot assure that inflation will remain within the Central Bank's target range in future years.

Despite the expectation that inflation during 2014 and 2015 will be within the Central Bank's goal range from 2.0% to 4.0%, certain events could cause inflation to be outside of the target range. Unanticipated supply shocks and domestic demand pressures could result in sustained increases in prices, which may significantly impact financial and credit markets, and adversely affect investors. In addition, commercial constraints and climatic events may adversely affect trade and food prices. These factors, among others, may result in volatility and upward pressure on inflation rates in Colombia, which in turn may increase our costs and expenses as our supply agreements are indexed by inflation.

Violence and political instability in Colombia may adversely affect the Colombian economy and our business and financial performance.

Colombia has experienced periods of severe violence over the past four decades, primarily due to the activities of guerillas, paramilitary groups and drug cartels. In remote regions of the country, with minimal governmental presence, these groups have exerted influence over the local population and funded their activities by protecting and rendering services to drug traffickers. In response, the Colombian government has implemented various security policies and has strengthened its military and police forces, including the creation of specialized units. Despite these efforts, drug-related crime and guerrilla and paramilitary activity continue to exist in Colombia. Any escalation in the violence associated with these activities may have a negative impact on the Colombian economy, as well as on us and our customers, employees, assets or projects.

Colombia has experienced internal security issues that have had or could have a negative effect on the Colombian economy.

Colombia has experienced internal security issues, primarily due to the activities of guerrilla groups such as the Revolutionary Armed Forces of Colombia (*Fuerzas Armadas Revolucionarias de Colombia*, or FARC), paramilitary groups and drug cartels. In remote regions of the country with minimal government presence, these groups have exerted influence over the local population and funded their activities by protecting and providing other services to drug traffickers. Even though the Colombian government's "democratic security" program has reduced guerilla and criminal activity, particularly with respect to terrorism attacks, homicides, kidnappings and extortion, such activity continues in Colombia. The escalation of such activities and their resulting effects have had and may have in the future a negative effect on the Colombian economy and on us, including our customers, employees, results of operations and financial condition.

On October 18, 2012, the Colombian government began negotiations with the FARC, the largest guerrilla group in Colombia, with a view to end the armed conflict. This is the latest attempt in a series of unsuccessful negotiations between the Colombian Government and the FARC. While the process is ongoing, military operations and hostilities continue. Current peace negotiations between the Colombian government and the FARC may result in agreements that are adverse to our interests or that result in an increase of our tax burden. In addition, if the negotiations fail, the intensity of the internal armed conflict could increase, resulting in a deterioration of Colombia's national security.

Tensions with Venezuela and Ecuador may affect the Colombian economy and, consequently, our results of operations and financial condition.

Diplomatic relations with Venezuela and Ecuador, two of Colombia's main trading partners, have from time to time been tense, and have been affected by events surrounding the Colombian armed forces combat of the FARC throughout Colombia, particularly on Colombia's borders with Venezuela and Ecuador. Any further deterioration in relations with Venezuela and Ecuador may result in the closing of borders, the imposition of trade barriers or a breakdown of diplomatic ties, any of which could have a negative effect on Colombia's trade balance, economy and general security situation, which may adversely affect our results of operations and financial condition.

Our operations are subject to extensive regulation.

The agencies that regulate the telecommunications industry in Colombia may take actions that affect our operations and profitability. The nature and degree of the regulation and legislation affecting telecommunications companies in Colombia has been evolving since privatization of the sector commenced in the early 1990s and has become significantly more comprehensive during the past decade. Such laws and regulations relate to, among other things, required licenses, permits and other approvals, the fees that we may charge for our services, the terms and conditions which apply to our services contracts, our ability to recover various categories of costs and the acquisition, construction and disposition of facilities.

In particular, the CRC regulates certain fees we are permitted to charge our customers in connection with the provision of telecommunications services. If (i) the services tariff rates were reduced or redesigned pursuant to regulations issued by the CRC in the future, (ii) the many relevant aspects of our business, including volume of business under currently permitted rates were decreased significantly, or (iii) we were required to substantially discount the rates for our services because of regulatory pressure, the profitability of our businesses could be significantly affected. For instance, as a result of the revised interconnection charges for mobile networks approved by the CRC in 2010, the maximum rate we can charge our fixed-line subscribers for fixed-to-mobile calls was reduced from COP$195 to COP$88.91 per minute in 2015.

These laws and regulations could further change, or could be interpreted, in a manner that could adversely affect us. For example, the CRC recently published a regulatory agenda based on certain recommendations made by the Organization for Economic Co-Operation and Development, or OECD. Some of the proposed changes may require us to adjust our current operational strategy and undertake additional investments, such as new regulations regarding fixed-line portability, local loop unbundling and the use of dark fiber infrastructure. For additional information regarding recent regulatory developments in the telecommunications industry, see "The Colombian Telecommunications Industry—Regulation of the Colombian Telecommunications Industry—Potential Regulatory Developments."

New or higher taxes resulting from changes in tax regulations or the interpretation thereof in Colombia could adversely affect our results of operations and financial condition.

New tax laws and regulations, and uncertainties with respect to future tax policies, pose risks to us. In recent years, Colombian tax authorities have imposed additional taxes in a variety of areas, such as taxes on financial transactions and other taxes on net worth, have modified income tax withholding rates and have eliminated certain tax benefits. In December, 2014, through Law 1739 of 2014, or Law 1739, the Colombian Congress modified the income tax for equality (*Impuesto sobre la Renta para la Equidad*, or CREE) rate and created a new applicable surcharge. In addition, it created a new net equity tax for the years 2015, 2016 and 2017 and modified the financial transactions' tax rate. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Our Operating Results—Effects of Changes in Tax Laws."

Changes in tax-related laws and regulations, and interpretations thereof, can affect tax burdens by increasing tax rates and fees, creating new taxes, limiting tax deductions, and eliminating tax-based incentives and non-taxed income. In addition, tax authorities or courts may interpret tax regulations differently than we do, which could result in tax litigation and associated costs and penalties.

The Colombian government could seize or expropriate our assets under certain circumstances.

Pursuant to Articles 58 and 59 of the Colombian constitution, the Colombian government can exercise its eminent domain powers in respect of our assets in the event such action is deemed by the Colombian government to be required in order to protect public interests. According to Law 388 of 1997, eminent domain powers may be exercised through (i) an ordinary expropriation proceeding (*expropiación ordinaria*), (ii) an administrative expropriation (*expropiación administrativa*) or (iii) an expropriation for war reasons (*expropiación en caso de guerra*). In all cases we would be entitled to fair compensation for the expropriated assets. Also, as a general rule, compensation must be paid before the asset is effectively expropriated, except for expropriations for reasons of war, in which case compensation may be quantified and paid later. However, the compensation may be lower than the price for which the expropriated asset could be sold in a free-market sale or the value of the asset as part of an ongoing business.

Natural disasters in Colombia could disrupt our businesses and affect our results of operations and financial condition.

We are exposed to natural disasters in Colombia, such as earthquakes, volcanic eruptions, floods, tropical storms and hurricanes. In the event of a natural disaster, our disaster recovery plans may prove to be ineffective, which could have a material adverse effect on our ability to conduct our business, particularly if such an occurrence affects computer-based data processing, transmission, storage and retrieval systems or destroys customer or other data. In addition, if a significant number of our employees and senior managers were unavailable because of a natural disaster, our ability to conduct our business could be compromised. Natural disasters or similar events could also result in substantial volatility in our results of operations for any fiscal quarter or year.

Risks Relating to the Notes

Our obligations under the notes will be subordinated to other claims and obligations and the indenture governing the notes will provide that holders waive certain rights and limit certain claims.

Our obligations under the notes will be unsecured and subordinated. In the event of the acceleration of the principal of the notes due to our liquidation, the indenture governing the notes provides that (1) all principal, premium, if any, and interest due or to become due on all unsubordinated indebtedness must be paid in full before the holders of our subordinated indebtedness (including the notes) are entitled to receive or retain any payment in respect thereof, and (2) the holders of our subordinated indebtedness (including the notes) will be entitled to receive *pari passu* among themselves any payment in respect thereof to the extent that the subordination of the notes set forth in the indenture governing the notes is recognized in the applicable Colombian insolvency proceeding.

Additionally, although subordination clauses may not be applicable in Colombian insolvency proceedings and may be disregarded, the indenture governing the notes will require holders of the notes to waive certain rights, limit certain claims against us and our creditors and pay over to our creditors any amounts received that are inconsistent with subordination. For additional information and a description of the indebtedness that will rank senior to the notes, see "Description of the Notes—Ranking of the Notes." The notes will also be effectively subordinated to any of our secured debt, to the extent of the collateral securing such debt. In addition, the notes will be effectively subordinated to all of our subsidiaries' liabilities. All of our consolidated indebtedness is senior to the notes. Furthermore, the Colombian judiciary has limited experience with respect to international transactions in the context of an insolvency proceeding; therefore we cannot assure what will be their approach towards the notes in such situation.

By virtue of such subordination, payments to a holder of notes will, in the events described above, only be made after all our obligations resulting from higher ranking claims have been satisfied. A holder of notes may, therefore, recover significantly less than the holders of our unsubordinated indebtedness. An investor in subordinated securities such as the notes may lose all or some of its investment if we become subject to insolvency or liquidation proceedings.

The obligations under the notes will be subordinated to statutory preferences.

Under Colombian law, the obligations under the notes and the indenture are subordinated, among others, to specified statutory priorities, including, for example, salaries, wages, social security, taxes, court fees and expenses and suppliers of raw materials necessary for the production or transformation of goods or for the rendering of services. In the event of our liquidation, these preferences will have priority over any other claims, including claims by any holder in respect of the notes, and, as a result, holders of notes may be unable to recover amounts due under the notes, in whole or in part.

We will have the right to defer interest payments on the notes.

We may, in our sole discretion, elect to defer, in whole or in part, payment of interest in respect of the notes in respect of any interest period by giving a deferral notice to the Trustee. If we make such an election, we shall have no obligation to make such payment and any such non-payment of interest will not constitute a default by us for any purpose. Any interest in respect of the notes that is deferred will, so long as the same remains outstanding, constitute arrears of interest, and arrears of interest will only be payable as described in "Description of the Notes—Payment of Deferred Interest." Such deferral is not subject to any time limitations or mandatory termination, except in connection with a Mandatory Payment Date (as defined in the "Description of the Notes"). If we make such an election, we shall have no obligation to make such payment and any such non-payment of interest will not constitute a default by us for any purpose. Any interest in respect of any series of notes the payment of which is deferred will, so long as the same remains outstanding, constitute arrears of interest for that series, and arrears of interest will only be payable as described in "Description of the Notes—Payment of Deferred Interest."

Any deferral of interest payments will likely have a material adverse effect on the market price of the notes. In addition, as a result of the interest deferral provisions of the notes, the market price of the notes may be more volatile than the market prices of other debt securities that are not subject to such deferrals and may be more sensitive generally to adverse changes in our financial performance.

The notes will be subject to optional redemption by us, including upon the occurrence of certain specified events.

The notes will be redeemable, in whole but not in part, at our option on the First Call Date and on any Interest Payment Date thereafter at the applicable redemption prices upon giving not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Trustee.

In addition, upon the occurrence of any of certain tax, accounting, rating and substantial repurchase events, or a change of control resulting in a ratings decline, we will have the option to redeem, in whole but not in part, the notes at the applicable Redemption Price set forth in "Description of the Notes—Redemption and Repurchase." For instance, Article 165 of Law 1607 of 2012, which adopted certain tax reforms, provides that solely for tax purposes, the accounting standards under Colombian GAAP will remain in effect during the four years following our adoption of IFRS in January 2015, in order to help measure the impact of IFRS on the tax regime for purposes of developing future tax legislation. Furthermore, Decree 2548 of 2014, enacted to facilitate compliance with this requirement, requires us to prepare our financial statements in accordance with IFRS while also maintaining additional accounting records for tax purposes that are prepared in accordance with Colombian GAAP between January 1, 2015 and December 31, 2018. We understand that additional official interpretations, rules or regulations relating to the application of Article 165 of Law 1607 of 2012 may be issued by the relevant tax authorities or other governmental authorities in Colombia in the future based on, among others, the provisions and timetable set forth under Decree 2548 of 2014. In the event that any such official interpretation, rule or regulation is issued and, as a result, we cease to be able to deduct our interest payments under the notes for Colombian tax purposes, then we would be entitled to redeem the notes at our option pursuant to the provision described in "Description of the Notes—Redemption and Repurchase—Redemption for Tax Deductibility Event."

If we redeem the notes, holders may not be able to reinvest the redemption proceeds at favorable rates or in other securities with the same or similar features.

The interest rate on the notes will reset on the applicable First Call Date and for Reset Periods thereafter, which can be expected to affect the interest payment on, and the market value of, the notes.

The notes will accrue interest at a fixed rate until, but excluding, the applicable First Call Date. The initial fixed rate of interest for the notes will be reset on the First Call Date and for subsequent Reset Periods as set forth in "Description of the Notes—Interest Rates and Interest Payment Dates." Holders of notes should be aware that movements in market interest rates can adversely affect the price of the notes and can lead to losses for holders of notes if they sell the notes.

Holders of securities with a fixed interest rate that will be reset during the term of the securities are exposed to the risk of fluctuating interest rate levels and uncertain interest income as the reset rates could affect the market value of an investment in the applicable securities.

The notes have no maturity date, mandatory redemption date or sinking fund provisions and are not redeemable at the option of holders of notes; holders of notes may be required to bear the financial risks of an investment in the notes indefinitely.

The notes have no fixed final maturity date, mandatory redemption date or sinking fund provisions and are not redeemable at the option of the holders of notes. We will be under no obligation to redeem or repurchase the notes, although we may elect to do so in certain circumstances. As a result, holders of the notes will be entitled to receive a return of the principal amount of their investment only if we elect to redeem or repurchase the notes or in the limited circumstances relating an event of default due to the occurrence of our liquidation (see "Description of the Notes—Events of Default"). Furthermore, holders of notes may only be able to transfer their notes at a price lower than the principal amount thereof or not at all. Holders of notes should therefore be aware that they may be required to bear the financial risks associated with an investment in perpetual securities and may not recover their investment in the foreseeable future.

The notes will not limit our ability to issue senior or* pari passu *securities.

The indenture governing the notes will not limit the amount of the liabilities ranking senior to, or *pari passu* with, the notes which may be incurred or assumed by us from time to time, whether before or after the Issue Date. The incurrence of any such other liabilities may reduce the amount (if any) recoverable by holders of notes upon our insolvency or liquidation or similar proceeding and/or may increase the likelihood of a deferral of interest payments under the notes.

The notes will contain limited events of default and remedies.

Holders of notes will have limited rights to enforce payment or the performance of our obligations in respect of the notes. Payment of principal on the notes will not accelerate if we fail to make payment of any interest, premium or principal when due. If we fail to make any such payment when due, the rights of holders of notes are limited to requiring the trustee to initiate proceedings to compel the performance of such obligation, as further described in "Description of the Notes—Events of Default."

The notes will only become immediately due and payable in the event of our liquidation. In addition, the indenture governing the notes will provide that each noteholder will be deemed to have agreed that the trustee will be the only party entitled to receive and distribute amounts paid in respect of the notes upon our insolvency, liquidation or similar event.

The notes do not have "cross-default," "cross-acceleration" or similar protections.

The notes will not include an event of default relating to a payment or covenant default with respect to other indebtedness, or acceleration of any other indebtedness. In contrast, our currently outstanding bonds and loans generally have events of default relating to defaults and accelerations with respect to other instruments, and it is likely that future bonds and loans will also contain such provisions.

Accordingly, there may be circumstances where we will be required to repay the principal, interest and other amounts due under other indebtedness, but holders of notes will not have the right to require repayment of the notes. In such circumstances, we may decide to pay or restructure other debt instruments prior to paying or restructuring the notes. In addition, in situations of financial distress short of insolvency or similar event, holders of notes may be unable to accelerate the notes or take enforcement action for a significant time after other creditors have exercised such rights.

The notes do not include the types of covenants we provide in our 5.375% senior notes due 2022.

The notes will not have the protections of any material covenants. Accordingly, holders of notes will not benefit from many of the covenants that we have included in the indenture governing our 5.375% senior notes due 2022 and in our credit agreements in the past and may be included in indentures and credit agreements in the future. As a result, holders of other indebtedness may have the right to pursue remedies against us when the holders of notes may not. In addition, we may be required to seek consents or waivers from holders of other indebtedness (or even prepay or redeem such indebtedness) without taking any action with respect to the notes.

The notes may not be a suitable investment for all investors.

Each potential investor in the notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the notes, the merits and risks of investing in the notes and the information contained or incorporated by reference in this offering memorandum;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the notes and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the notes;

- understand thoroughly the terms of the notes and be familiar with the behavior of the relevant financial markets and of any financial variable which might have an impact on the return on the notes; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The notes are complex financial instruments and such instruments may be purchased by potential investors as a way to reduce risk or enhance yield with an understood, measured and appropriate addition of risk to their overall portfolios. A potential investor should not invest in the notes unless it has the expertise (either alone or with a financial adviser) to evaluate how the notes will perform under changing conditions, the resulting effects on the value of the notes and the impact this investment will have on the potential investor's overall investment portfolio.

Creditors of any subsidiaries we have in the future will have priority over holders in claims to assets of such subsidiaries.

The notes will be our direct obligations. We do not presently have any subsidiaries, however if we have subsidiaries in the future, claims of creditors of our subsidiaries, including trade creditors and bank and other lenders, will have priority over those of holders of the notes with respect to assets of our subsidiaries. In addition, our ability to meet our obligations, including under the notes, may depend, in significant part, on our receipt of cash dividends, advances and other payments from our subsidiaries should we have any in the future.

The ratings of the notes may be lowered or withdrawn depending on various factors, including the rating agency's assessments of our financial strength and Colombian sovereign risk.

One or more independent credit rating agencies may assign credit ratings to the notes. The ratings of the notes are not a recommendation to purchase, hold or sell the notes, and the ratings do not comment on market price or suitability for a particular investor. Ratings are limited in scope, and do not address all material risks relating to an investment in the notes, but rather reflect only the views of the rating agencies at the time the ratings are issued. The ratings of the notes are subject to change and may be lowered or withdrawn.

Any downgrade in or withdrawal of our corporate or senior debt ratings may adversely affect the rating and price of the notes. We cannot assure you that ratings will remain in effect for any given period of time or that ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in the judgment of rating agencies, circumstances so warrant. A downgrade in or withdrawal of the ratings of the notes will not be an event of default under the indenture governing the notes. The assigned ratings may be raised or lowered depending, among other things, on the rating agency's assessment of our financial strength, as well as its assessment of Colombian risk generally. Any downgrade in or withdrawal of the rating of the notes or our corporate rating may adversely affect the price of the notes."

An active trading market may not develop for the notes, which may limit your ability to resell them.

The notes will constitute a new class of securities for which there is currently no established trading market. We have applied to have the notes listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market, a market of the Luxembourg Stock Exchange. We do not intend to list the notes on any other stock exchange or seek their admission for trading in any other quotation system and we may delist the notes from the Luxembourg Stock Exchange at any time, should they become listed on that exchange. The lack of an active trading market for the notes would have a material adverse effect on the market price and liquidity of the notes. If a market for the notes develops, the notes may trade at a discount from their initial offering price.

In addition, you may not be able to sell your notes at a particular time or at a price favorable to you. Future trading prices of the notes will depend on many factors, including:

- our operating performance and financial condition;
- the interest of securities dealers in making a market;
- the market for similar securities;
- prevailing interest rates;
- changes in earnings estimates or recommendations by research analysts who track our notes or the notes of other companies in our industry;
- changes in general economic conditions;

- acquisitions, strategic alliances or joint ventures involving us or our competitors; and
- other developments affecting us, our industry or our competitors.

The market for the notes, if any, may be subject to disruptions that cause substantial volatility in prices. A disruption may have a negative effect on you as a holder of the notes, regardless of our prospects or performance.

The notes are subject to restrictions on transfer within the United States or to U.S. persons and may be subject to transfer restrictions under the laws of other jurisdictions.

We have not and do not intend to register the notes under the Securities Act or any U.S. state securities laws, and we have not undertaken to conduct any registered exchange offer for the notes. Accordingly, you may not offer the notes for sale in the United States or to U.S. persons (as defined in Regulation S), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws, or pursuant to an effective registration statement. Furthermore, we have not registered the notes under any other country's securities laws. It is your obligation to ensure that your offers and sales of the notes within the United States and elsewhere comply with applicable securities laws. See "Plan of Distribution" and "Transfer Restrictions." Consequently, a holder of notes and an owner of beneficial interests in those notes must be able to bear the economic risk of their investment in the notes for the term of the notes.

You may not be able to effect service of process on us, our subsidiaries or directors or to enforce in Colombian courts judgments obtained against us in the United States.

We are an ESP organized as a *sociedad anónima* (stock corporation) under the laws of Colombia. Most of our directors and all of our executive officers named in this offering memorandum are residents of Colombia. All of our assets are located outside the United States. Although we will appoint an agent for service of process in the United States of America, it may be difficult for you to effect service of process on, or to enforce judgments of U.S. courts against us or our directors and officers based on the civil liability provisions of the U.S. federal securities laws.

We have been advised by our Colombian counsel that Colombian courts will determine whether to enforce a U.S. judgment predicated on the U.S. securities laws through a procedural system known under Colombian law as *exequatur*. Notwithstanding the foregoing, we cannot assure you that a Colombian court would enforce a U.S. based judgment with respect to the notes based on U.S. securities laws. See "Enforcement of Civil Liabilities."

We may not be able to make payments in U.S. dollars.

In the past, the Colombian economy has experienced balance of payments deficits and shortages in foreign exchange reserves. While the Colombian government does not currently restrict the ability of Colombian or foreign persons or entities to convert *pesos* to foreign currencies, including U.S. dollars, it has done so in the past and could do so again in the future. We cannot assure you that the Colombian government will not implement a restrictive exchange control policy in the future. Any such restrictive exchange control policy could prevent or restrict our access to U.S. dollars to meet our U.S. dollar obligations and could also have a material adverse effect on our business, financial condition and results of operations. We cannot predict the impact of any such measures on the Colombian economy. See "Foreign Exchange Controls and Exchange Rates."

Additionally, Article 79 of Regulation 8 of the Central Bank (2000) provides that, in case of legal proceedings in Colombia, the conversion of foreign currency-denominated obligations of Colombian residents, such as us, would be made by using the foreign exchange rate prevailing on the payment date. Accordingly, in the event that proceedings are brought and a judgment entered against us in Colombia, we may be required to discharge these obligations in Colombian *pesos*. As a result, investors may be exposed to exchange rate risks.

It may be difficult to enforce your rights if we enter into an insolvency, bankruptcy, liquidation or similar proceeding in Colombia.

The insolvency laws of Colombia, particularly with regards to the priority of creditors (secured or unsecured), the ability to obtain post-petition interest and the duration of insolvency proceedings, may be less favorable to your interests than the bankruptcy laws of the United States. Your ability to recover payments due on the notes may be more limited than would be the case under the bankruptcy laws of the United States.

Your ability to enforce your rights under the notes may be limited if we become subject to the insolvency proceedings under applicable Colombian law, as amended from time to time, which establishes the events under which a company, its creditors or the authorities may request its admission to insolvency proceedings in order to reach an agreement with its creditors (*acuerdo de reorganización empresarial*) as to the terms of its debt structure. In addition, under applicable Colombian law, if a debtor breaches an insolvency agreement, or if continuation of a debtor's business is not economically feasible, the company will be liquidated.

Colombian general insolvency regulations also provide that contractual provisions that directly or indirectly prevent or create obstacles to the commencement and execution of reorganization proceedings in Colombia, including early termination of agreements or acceleration of contractual obligations upon the initiation of a reorganization proceeding or prohibitions or limitations on a debtor's ability to enter into such a proceeding, are not enforceable in Colombia. These regulations also provide that any attempt by creditors to enforce such provisions against an insolvent or bankrupt debtor may result in the rights of such creditors being subordinated to the payment of all external liabilities of the debtor. As a result, your ability to enforce your rights under the notes may be limited and your rights under the notes may be further subordinated in the event the holders of the notes seek to enforce the provisions of the notes relating to acceleration upon the initiation of a reorganization proceeding with respect to us.

USE OF PROCEEDS

We expect to use the net proceeds from the sale of the notes, which are estimated to be U.S.$496.3 million, to repay a portion of our existing short-term and long term indebtedness with financial institutions in an amount of approximately COP$1,187,423 million (corresponding to U.S.$496.3 million of net proceeds from the sale of the notes translated at the exchange rate as of December 31, 2014 of COP$2,392.46 to U.S.$1.00).

FOREIGN EXCHANGE CONTROLS AND EXCHANGE RATES

Foreign Exchange Controls

In 1990, the Colombian government initiated a policy of gradual currency liberalization. Foreign currency holdings abroad were permitted and, in a series of decrees, control of the exchange rate was shifted from the Central Bank to the spot foreign exchange market.

Law 9 of 1991 and Resolution 8 of 2000 of the Central Bank establish two types of markets for foreign currency exchange: (i) the free market, which consists of all foreign currencies originated in sales of services, donations, remittances and all other inflows or outflows that do not have to be channeled through the FX market (as defined below), or the free market. The free market also includes assets and investments abroad, including its profits, owned by Colombian residents prior to September 1, 1990; and (ii) the controlled market, or the FX market, which consists of (a) all foreign currencies originated in operations considered to be operations of the FX market, or the controlled operations, which may only be transacted through foreign exchange intermediaries, or FX intermediaries, or through the registered compensation accounts mechanism, or the compensation accounts, or (b) foreign currencies, which although not required to be bought from a foreign exchange, including the FX market, are voluntarily channeled through such market. Compensation accounts are accounts opened abroad by Colombian residents (individuals and legal entities), which are registered with the Central Bank in order to channel foreign currency originated in controlled operations of the FX market.

Under Colombian FX regulations, FX intermediaries are authorized to enter into foreign exchange transactions, or FX transactions, to convert Colombian *pesos* into foreign currencies or foreign currencies into Colombian *pesos*. In addition, there are certain requirements and obligations established by law and by the board of directors of the Central Bank, in order to transfer currency into or out of Colombia. Colombian law allows the Central Bank to intervene in the foreign exchange market if the value of the Colombian *peso* is subject to significant volatility. The Central Bank may, at its discretion, limit the remittance of dividends and/or investments of foreign currency received by Colombian residents whenever the international reserves fall below an amount equal to three months of imports.

In addition to its past interventions in the exchange rate market, the Central Bank regulations establish a deposit requirement on all foreign loans granted to Colombian residents, as an instrument to control the fluctuation of the *peso* against the U.S. dollar. To this end, the Central Bank has on some occasions required that a certain percentage of the debt incurred be deposited in Colombian *pesos* or foreign currency with the Central Bank in a non-interest-bearing account for a fixed period of time (*depósito por operaciones de endeudamiento externo*). A debtor of foreign loans can early prepay or redeem the certificate given by the Central Bank evidencing the deposit, but said prepayment or early redemption may imply a discount. The discount is reduced as the term for maturity is reduced. Currently, the deposit requirement is equal to 0.0% of the disbursements made under the loan, so in practice, there is no deposit that has to be made with the Central Bank by the debtor of foreign loans. In addition to the deposit requirements, the Central Bank has prohibited Colombian financial institutions from funding foreign currency loans with borrowings having shorter maturities. The Central Bank has also set limits on a financial intermediary's net foreign currency position, which is defined as foreign currency denominated assets (including any off-balance sheet items, made or contingent, including those that may be sold in Colombian legal currency) minus foreign currency denominated liabilities.

Exchange Rates

The Central Bank and the MHCP have, in recent years, adopted a set of measures intended to tighten monetary policy and control the fluctuation of the *peso* against the U.S. dollar. Pursuant to Resolution 5 of 2008 and Resolution 11 of 2008 of the Central Bank, such measures include, among others: reserve requirements on private demand deposits, government demand deposits, savings deposits and other deposits on liabilities currently set at 11.0%; reserves of 4.5% for deposits with maturities of less than 540 days and 0.0% for term deposits with maturities of more than 540 days; and the deposit requirements with respect to indebtedness in a foreign currency, currently set at 0.0%. During 2007 and 2008, both the MHCP and the Central Bank adopted several measures aimed at controlling the fluctuation of the *peso* against the U.S. dollar. These measures include, among others, the following:

- a 50.0% non-interest bearing deposit requirement at the Central Bank, applicable to short-term portfolio investments in assets other than shares or convertible bonds or collective investment funds that only invest in shares or convertible bonds, for a period of six months which was rescinded in 2008;

- a six-month 40.0% non-interest bearing deposit at the Central Bank applicable to corporate reorganization transactions, including mergers, acquisitions and spin-offs, if the successor thereof is a Colombian resident required to repay foreign indebtedness which would have otherwise been subject to the deposit requirement of Resolution No. 2 of May 6, 2007;

- exemptions to the 40.0% non-interest bearing deposit requirement applicable to foreign investment in local private equity funds and American Depositary Receipt and Global Depositary Receipt, or, respectively, ADR and GDR programs, of Colombian issuers;

- restrictions on the repatriation of foreign direct investments; and

- interest-free deposits with the Central Bank applicable to the proceeds resulting from imports financings.

The Central Bank may also, at its own discretion, limit the remittance of dividends and/or investments of foreign currency received by Colombian residents whenever the international reserves fall below an amount equal to three months of imports. We cannot assure you that the Central Bank will not intervene in the future. However, since the creation of the current foreign exchange regime in 1991, the Central Bank has never taken any such action.

The Colombian government and the Central Bank have considerable power to determine governmental policies and actions that relate to the Colombian economy and, consequently, to affect the operations and financial performance of businesses. The Colombian government and the Central Bank may seek to implement additional measures aimed at controlling further fluctuation of the Colombian *peso* against other currencies and fostering domestic price stability.

During 2011, the Colombian *peso* depreciated against the U.S. dollar by 1.5%, compared to appreciation of the Colombian *peso* against the U.S. dollar of 9.0% during 2012, a depreciation of the Colombian *peso* against the U.S. dollar of 9.0% during 2013, and a further depreciation of the Colombian peso against the U.S. dollar of 24.2% during 2014.

The following table sets forth, for the periods indicated, the high, low, average and end of period rate for the exchange of U.S. dollars for *pesos* as certified by the SFC.

Year ended December 31,	High	Low	Average(1)	Period End
2010	2,044.23	1,786.20	1,898.11	1,913.98
2011	1,972.76	1,748.41	1,846.66	1,942.70
2012	1,942.70	1,754.89	1,797.40	1,768.23
2013	1,952.11	1,758.45	1,868.69	1,926.83
2014	2,446.35	1,846.12	1,999.38	2,392.46

(1) Represents the average yearly exchange rate expressed in *pesos* per dollar as certified by the SFC for the period. Calculated including only business days in Colombia and the U.S.

Month	High	Low	Average(1)	Period End
September 2014	2,028.48	1,918.62	1,973.85	2,028.48
October 2014	2,074.40	2,021.49	2,047.03	2,050.52
November 2014	2,165.15	2,061.92	2,126.38	2,206.19
December 2014	2,446.35	2,206.19	2,341.82	2,392.46
January 2015	2,452.11	2,361.54	2,398.41	2,441.10
February 2015	2,500.59	2,371.31	2,422.71	2,496.99
March 2015 (through March 13)	2,633.65	2,496.99	2,569.64	2,610.08

(1) Represents the average monthly exchange rate expressed in *pesos* per *dollar* as certified by SFC for the period. Calculated including only business days in Colombia and the U.S.

We make no representation that the Colombian *peso* or the U.S. dollar amounts referred to herein actually represent, could have been or could be converted into U.S. dollars or Colombian *pesos*, as the case may be, at the rates indicated, at any particular rate or at all. The Federal Reserve Bank of New York does not report a noon buying rate for *pesos*.

CAPITALIZATION

The following table sets forth our debt and capitalization as of December 31, 2014, derived from our audited balance sheet as of December 31, 2014:

1. on a historical basis;

2. as adjusted for short-term indebtedness incurred after December 31, 2014 of COP$215,710 million; and

3. as further adjusted for:

   - the sale of the notes offered hereby in an aggregate principal amount of U.S.$500.0 million (equivalent to COP$1,196,230 million translated at the exchange rate as of December 31, 2014 of COP$2,392.46 to U.S.$1.00); and

   - the application of the net proceeds from the sale of the notes to the repayment of approximately COP$1,187,423 million (corresponding to U.S.$496.3 million of net proceeds from the sale of the notes translated at the exchange rate as of December 31, 2014 of COP$2,392.46 to U.S.$1.00) of our existing indebtedness, as follows: COPS488,101 million of our short-term indebtedness and COP$699,322 million of our long-term indebtedness.

You should read this table in conjunction with "Presentation of Financial and Other Information," "Use of Proceeds," "Selected Financial and Other Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited financial statements and the related notes thereto, included elsewhere in this offering memorandum.

	As of December 31, 2014					
	Actual	**As adjusted**	**As further adjusted**	**Actual**	**As Adjusted**	**As further adjusted**
		(*in millions of U.S.$*)(1)			(*in millions of* pesos)	
Cash and cash equivalents	23.4	23.4	23.4	56,091	56,091	56,091
Other debtors – Valuation of hedging instruments	**77.2**	**77.2**	**77.2**	**184,804**	**184,804**	**184,804**
Short-term debt(2)						
Bank loans	147.2	237.4	33.4	352,278	567,988	79,887
Total short-term debt	**147.2**	**237.4**	33.4	**352,278**	**567,988**	**79,887**
Long-term debt(2)						
Bank loans	799.8	799.8	507.5	1,913,453	1,913,453	1,214,131
Bonds and securities(3)	750.0	750.0	750.0	1,794,345	1,794,345	1,794,345
Notes offered hereby(4)(5)	—	—	500.0	—	—	1,196,230
Total long-term debt	**1,549.8**	**1,549.8**	**1,757.5**	**3,707,798**	**3,707,798**	**4,204,706**
Total debt	**1,697.0**	**1,787.2**	**1,790.9**	**4,060,076**	**4,275,786**	**4,284,593**
Total debt net of derivatives(6)	**1,619.8**	**1,710.0**	**1,713.7**	**3,875,272**	**4,090,982**	**4,099,789**
Total shareholders' equity	**406.9**	**406.9**	**406.9**	**973,420**	**973,420**	**973,420**
Total capitalization(7)	**2,103.9**	**2,194.1**	**2,197.7**	**5,033,497**	**5,249,206**	**5,258,013**
Total capitalization net of derivatives(8)	**2,026.7**	**2,116.9**	**2,120.6**	**4,848,693**	**5,064,402**	**5,073,209**

(1) Solely for the convenience of the reader, Colombian *pesos* amounts have been translated into U.S. dollars at the exchange rate as of December 31, 2014 of COP$2,392.46 to U.S.$1.00. See "Foreign Exchange Controls and Exchange Rates" for further information about recent fluctuations in exchange rates.

(2) Under IFRS, we will recognize our PARAPAT Payment Obligations as other financial obligations on our balance sheet. As of December 31, 2014, the financial liabilities related to the PARAPAT Agreement amounted to COP$3,972,797 million.

(3) Corresponds to our U.S.$750 million 5.375% senior notes due 2022.

(4) As adjusted to reflect the aggregate principal amount of the notes offered hereby of U.S.$500.0 million (equivalent to COP$1,196,230 million translated at the exchange rate as of December 31, 2014 of COP$2,392.46 to U.S.$1.00) after deduction of commissions and expenses in connection with this offering.

(5) Under IFRS, we will record the principal amount of the notes offered hereby as our shareholders' equity under the "other equity interests" line item.
(6) Total debt net of derivatives is the sum of total debt less Other debtors – Valuation of hedging transactions.
(7) Total capitalization is the sum of short- and long-term debt and total shareholders' equity.
(8) Total capitalization net of derivatives is the sum of total debt net of derivatives and total shareholders' equity.

Other than as described above, there have been no material changes to our capitalization since December 31, 2014.

SELECTED FINANCIAL AND OTHER INFORMATION

The tables in this section set forth our selected financial and other information as of and for the years ended December 31, 2014, 2013 and 2012. Our summary financial data:

- as of and for the years ended December 31, 2014 and 2013 have been derived from our 2014 audited financial statements, and

- as of and for the year ended December 31, 2012 have been derived from our 2013 audited financial statements.

Our audited financial statements have been prepared in accordance with Colombian GAAP. As of January 1, 2015, we are required to prepare our financial statements in accordance with IFRS, which differs in certain material respects from Colombian GAAP. We have not prepared audited or unaudited financial statements under IFRS in connection with this offering. See "Presentation of Financial and Other Information—Financial Statements." For a discussion of certain significant differences between Colombian GAAP and IFRS, see "Presentation of Financial and Other Information—Financial Statements—Effects of IFRS Adoption" and "Annex A – Summary of Certain Significant Differences Between Colombian GAAP and IFRS."

The financial information in this section should be read in conjunction with "Presentation of Financial and Other Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our audited financial statements and the related notes thereto included elsewhere in this offering memorandum.

Statement of Operations

	For the year ended December 31,			
	2014	2014	2013	2012(2)
	(in millions of U.S.$)(1)		*(in millions of* pesos*)*	
Net revenues	1,939.4	4,639,999	4,200,775	3,998,868
Cost of sales and services	(780.9)	(1,868,220)	(1,688,290)	(1,629,638)
Gross profit before PARAPAT Payment Obligations	**1,158.5**	**2,771,779**	**2,512,485**	**2,369,230**
PARAPAT Payment Obligations	(122.2)	(292,452)	(148,463)	(131,389)
Gross Profit	**1,036.3**	**2,479,327**	**2,364,022**	**2,237,841**
Administrative expenses	(158.3)	(378,617)	(366,757)	(361,856)
Provisions	(33.3)	(79,790)	(65,583)	(72,545)
Selling expenses	(264.0)	(631,548)	(641,768)	(589,058)
Operating expenses	**(455.6)**	**(1,089,955)**	**(1,074,108)**	**(1,023,459)**
Operating income (loss) before depreciation and amortization	**580.7**	**1,389,372**	**1,289,914**	**1,214,382**
Depreciation of property, plant and equipment	(262.7)	(628,465)	(644,553)	(592,787)
Amortization of deferred charges	(112.9)	(269,915)	(284,412)	(258,721)
Amortization of intangibles	(64.9)	(155,388)	(287,969)	(284,593)
Depreciation and amortization	**(440.5)**	**(1,053,768)**	**(1,216,934)**	**(1,136,101)**
Operating income (loss)	**140.2**	**335,604**	**72,980**	**78,281**
Financial expenses, net	(152.1)	(363,778)	(332,830)	(370,191)
Tax on net worth			-	-
Other non-operating income, net	2.4	5,645	3,257	11,619
Other expenses, net	**(149.7)**	**(358,133)**	**(329,573)**	**(358,572)**
Loss before income tax	**(9.5)**	**(22,529)**	**(256,593)**	**(280,291)**
Income tax credit (expense)	14.2	33,843	(5,420)	(277)
Net Income (loss)	**4.7**	**11,314**	**(262,013)**	**(280,568)**

(1) Solely for the convenience of the reader, Colombian *pesos* amounts for the year ended December 31, 2014 have been translated into U.S. dollars at the exchange rate published by the Central Bank on December 31, 2014 of COP$2,392.46 to U.S.$1.00. See “Foreign Exchange Controls and Exchange Rates” for further information about recent fluctuations in exchange rates.

(2) Our financial information for the year ended December 31, 2012 gives effect to the TEMCO Merger as if it had occurred on January 1, 2012.

Balance Sheet

	For the year ended December 31,			
	2014	2014	2013	2012
	(in millions of U.S.$)(1)		*(in millions of* pesos*)*	
Current assets				
Cash and cash equivalents	23.4	56,091	135,657	136,373
Temporary investments	10.2	24,435	8,156	20,228
Accounts receivable	348.3	833,313	646,162	642,697
Inventories	45.0	107,635	79,559	60,485
Pre-paid expenses	5.6	13,306	11,192	16,296
Total current assets	**432.5**	**1,034,780**	**880,726**	**876,079**
Non-current assets				
Permanent investments	-	60	60	60
Accounts receivable, net(2)	475.9	1,138,650	1,012,502	981,368
Deferred charges, net(3)	244.4	584,645	613,330	708,895
Pre-paid expenses long-term	2.1	4,893	3,284	4,036
Intangible assets(4)	337.9	808,326	659,409	669,154
Property, plant and equipment, net	1,377.6	3,295,776	3,103,865	3,149,746
Other assets	-	-	279	4,381
Revaluation of assets	40.8	97,709	221,200	392,707
Total non-current assets	**2,478.7**	**5,930,059**	**5,613,929**	**5,910,347**
Total assets	**2,911.2**	**6,964,839**	**6,494,655**	**6,786,426**
Current liabilities				
Financial obligations	147.2	352,278	373,278	59,043
Accounts payable(5)	404.1	966,783	1,005,775	1,182,749
Taxes, liens and charges	61.8	147,775	147,291	146,929
Labor obligations	10.7	25,553	23,716	21,385
Accrued liabilities and provisions	117.9	282,007	380,516	269,228
Deferred liabilities	13.3	31,878	41,157	33,560
Other liabilities	18.4	44,026	32,429	59,928
Total current liabilities	**773.4**	**1,850,300**	**2,004,162**	**1,772,822**
Non-current liabilities				
Financial obligations	799.8	1,913,453	1,667,579	1,705,350
Taxes, liens and charges	76.4	182,690	-	45,603
Estimated liabilities and provisions	7.8	18,664	8,414	75,043
Deferred liabilities	87.4	208,983	153,152	167,598
Other liabilities	9.6	22,984	85,026	83,515
Bonds and securities	750.0	1,794,345	1,445,123	1,326,173
Total non-current liabilities	**1,731.0**	**4,141,119**	**3,359,294**	**3,403,282**
Total liabilities	**2,504.4**	**5,991,419**	**5,363,456**	**5,176,104**
Shareholders' equity				
Share capital	608.1	1,454,871	1,454,871	1,454,871
Surplus capital	1,416.6	3,389,267	3,389,267	3,389,267
Legal reserves	1.6	3,730	64,241	64,241
Fiscal depreciation reserve	11.0	26,330	26,298	26,298
Revaluation of equity	202.3	483,899	529,502	575,104
Valuation surplus	40.8	97,709	221,200	392,707
Net income (loss) for the year	4.7	11,314	(262,013)	(280,568)
Accumulated earnings (losses)	(1,878.3)	(4,493,700)	(4,292,167)	(4,011,598)
Total shareholders' equity	**406.8**	**973,420**	**1,131,199**	**1,610,322**
Total liabilities and shareholders' equity	**2,911.2**	**6,964,839**	**6,494,655**	**6,786,426**

(1) Solely for the convenience of the reader, Colombian *pesos* amounts as of December 31, 2014 have been translated into U.S. dollars at the exchange rate published by the Central Bank on December 31, 2014 of COP$2,392.46 to U.S.$1.00. See "Foreign Exchange Controls and Exchange Rates" for further information about recent fluctuations in exchange rates.

(2) Accounts receivable includes accounts receivable from PARAPAT related to payments made by us in connection with the termination of certain joint venture agreements entered into by Telecom and the *Teleasociadas*. As of each of December 31, 2014, December 31, 2013 and December 31, 2012, we had recorded COP$903,175 million of such PARAPAT gross accounts receivable.

(3) Deferred charges, net, include charges associated with projects under development, software licenses, improvements in third-party property and tax on net worth.

(4) Intangible assets include concessions and permits to use radio spectrum for mobile services, permits and licenses required to provide television services, other rights and licenses and assets acquired under financial leases. As of December 31, 2014, we recorded COP$698,688 million in concessions and permits. As of December 31, 2013 and 2012, we recorded COP$538,781 million and COP$501,232 million, respectively, in concessions and permits.
(5) As of December 31, 2012, our accounts payable included past-due PARAPAT Payment Obligations in the amount of COP$254,791 million.

Other Financial Information

	For the year ended December 31,			
	2014	**2014**	**2013**	**2012(2)**
	(in millions of U.S.$)(1)	*(in millions of* pesos*)*		
Cash flow data				
Net cash provided (used) by operating activities	442.7	1,059,149	872,539	570,352
Net cash used in investing activities	(563.8)	(1,348,981)	(1,119,367)	(807,829)
Net cash provided by financing activities	87.9	210,266	246,112	156,083
Other financial information				
Capital expenditures (excluding licenses)	423.0	1,011,984	862,442	807,871
Licenses (radio spectrum)	123.4	295,325	268,997	—
PARAPAT Payment Obligations	122.2	292,452	148,463	131,389
EBITDA(3)	583.1	1,395,017	1,293,171	1,226,001
Adjusted EBITDA(3)	705.3	1,687,469	1,441,634	1,357,389
Adjusted EBITDA margin(4)	36.4%	36.4%	34.3%	33.9%
Net debt to Adjusted EBITDA ratio(5)	2.4	2.4	2.3	2.2

(1) Solely for the convenience of the reader, Colombian *pesos* amounts for the year ended December 31, 2013 December 31, 2014 have been translated into U.S. dollars at the exchange rate published by the Central Bank on December 31, 2014 of COP$2,392.46 to U.S.$1.00. See "Foreign Exchange Controls and Exchange Rates" for further information about recent fluctuations in exchange rates.
(2) Our financial information for the year ended December 31, 2012 gives effect to the TEMCO Merger as if it had occurred on January 1, 2012.
(3) EBITDA means: net income (loss) before depreciation and amortization; financial expenses, net and income tax. Adjusted EBITDA means EBITDA *plus*, to the extent deducted in arriving at net income (loss) for such period, the aggregate accrued PARAPAT Payment Obligations determined for such period. EBITDA and Adjusted EBITDA are not Colombian GAAP or IFRS measures, do not represent cash flow for the periods indicated and should not be considered an alternative to net income (loss), as an indicator of our operating performance or as an alternative to cash flows as a source of liquidity. Our definition of EBITDA and Adjusted EBITDA may not be comparable with EBITDA or Adjusted EBITDA as defined by other companies. Although our EBITDA and Adjusted EBITDA do not provide a Colombian GAAP or IFRS measure of operating cash flows, our management uses it as a measure of the operating performance of our operations. Our EBITDA and Adjusted EBITDA are calculated as follows:

	For the year ended December 31,			
	2014	**2014**	**2013**	**2012**
	(in millions of U.S.$)(a)	*(in millions of* pesos*)*		
EBITDA				
Net Income (loss)	4.7	11,314	(262,013)	(280,568)
Plus:				
Depreciation and amortization	440. 5	1,053,768	1,216,934	1,136,101
Financial expenses, net	152.1	363,778	332,830	370,191
Income tax	(14.2)	(33,843)	5,420	277
EBITDA	**583.1**	**1,395,017**	**1,293,171**	**1,226,001**
Plus:				
Accrued PARAPAT Payment Obligations	122.2	292,452	148,463	131,389
Adjusted EBITDA	**705.3**	**1,687,469**	**1,441,634**	**1,357,389**

(a) Solely for the convenience of the reader, Colombian pesos amounts for the year ended December 31, 2013 December 31, 2014 have been translated into U.S. dollars at the exchange rate published by the Central Bank on December 31, 2014 of COP$2,392.46 to U.S.$1.00. See "Foreign Exchange Controls and Exchange Rates" for further information about recent fluctuations in exchange rates.

(4) Adjusted EBITDA margin represents Adjusted EBITDA divided by net revenues.
(5) Net debt means total short- and long-term financial obligations *less* cash and cash equivalents and temporary investments as of the end of the relevant period. The net debt to Adjusted EBITDA ratio is calculated as net debt as of the end of the relevant period divided by Adjusted EBITDA for the 12-month period then ended.

Other Operating Information

	As of and for the year ended December 31,		
	2014	2013	2012
Operating information			
Total mobile subscribers	12,842,498	12,121,734	11,703,632
Voice – Pre-paid subscribers	9,409,005	8,733,210	8,612,201
Voice – Post-paid subscribers	2,660,601	2,653,539	2,338,739
Mobile Data – pre-paid subscribers	173,609	85,316	63,007
Mobile Data – post-paid subscribers	599,284	649,669	689,685
Total mobile subscribers growth	5.9%	3.6%	2.7%
ARPU (per mobile subscriber, in *pesos*)	17,166	17,224	17,083
Churn rate for mobile subscribers	3.1%	3.71%	3.8%
Total fixed lines	1,461,031	1,447,059	1,420,427
Total fixed lines growth	1.0%	1.9%	(4.1)%
ARPU – Fixed-line (in *pesos*)	30,546	31,784	33,355
Churn rate for fixed-line subscribers	1.7%	1.6%	1.9%
Total Internet subscribers	959,175	850,927	703,312
Total Internet subscribers growth	12.7%	21.0%	15.4%
ARPU – Internet (in *pesos*)	34,255	37,799	43,689
Churn rate for Internet subscribers	2.1%	2.1%	2.6%
TV subscribers	415,977	347,636	284,805
TV subscribers growth	19.7%	22.1%	11.7%
ARPU – TV (in *pesos*)	34,304	31,383	27,818
Churn rate for TV subscribers	2.4%	2.6%	3.2%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with (i) our audited financial statements as of and for the years ended December 31, 2014 and 2013, and the notes thereto, and (ii) our audited financial statements as of and for the years ended December 31, 2013 and 2012, and the notes thereto, in each case included elsewhere in this offering memorandum, as well as the information presented under the sections entitled "Presentation of Financial and Other Information," and "Selected Financial and Other Information." The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those set forth in "Forward-Looking Statements" and "Risk Factors."

Overview

We are a full-service telecommunications provider offering a range of integrated telecommunications services including fixed-line, mobile, data transmission (including broadband access and value-added services) and subscription television services throughout Colombia. We believe we are the second-largest integrated fixed-line and mobile telecommunications provider in Colombia in terms of subscribers and revenues, according to information available from the MINTIC. As of September 30, 2014, we operated the largest fixed-line network in Colombia in terms of geographical coverage, according to information available from MINTIC. We are the result of the merger of TEMCO with and into CT, which became effective on June 29, 2012. We are an indirect subsidiary of Telefónica, the world's sixth-largest telecommunications company in terms of revenues as of December 31, 2013, according to Bloomberg. Our relationship with Telefónica benefits us through the use of Telefónica's internationally recognized *Movistar* brand, present in 14 countries in Latin America, and through access to Telefónica's industry experience, economies of scale, synergies, strategic initiatives and technical expertise. We offer all of our telecommunications services under the *Movistar* brand. The Republic of Colombia, acting through the MHCP, holds 30% of our capital stock.

We serve residential customers, small, medium and large companies and governmental agencies. As of December 31, 2014, we had 12,842,498 mobile subscribers, 1,461,031 fixed lines in service, 959,175 Internet subscribers and 415,977 TV subscribers. As of September 30, 2014, we had a market share in Colombia of 23.5% for mobile services, 20.3% for fixed-line services, 19.2% for internet broadband services and 8.2% for subscription television services, according to the MINTIC, the SIC and the ANTV.

As of December 31, 2014, we had total assets of COP$6,964,839million (U.S.$2,911.2 million), with total equity of COP$973,420million (U.S.$406.9million). In 2014, we had net revenues of COP$4,639,999 million (U.S.$1,939.4million), net income of COP$11,314 million (U.S.$4.7 million), EBITDA of COP$1,395,017 million (U.S.$583.1 million) and Adjusted EBITDA of COP$1,687,469 million (U.S.$705.3 million). In 2013, we had net revenues of COP$4,200,775 million (U.S.$1,755.8 million), EBITDA of COP$1,293,171 million (U.S.$540.5 million), Adjusted EBITDA of COP$1,441,634 million (U.S.$602.6 million) and net loss of COP$262,013 million (U.S.$109.6 million).

Financial Presentation and Accounting Policies

Presentation of Financial Statements

Our audited financial statements for the years ended December 31, 2014 and 2013 and our audited financial statements as of and for the years ended December 31, 2013 and 2012, which are included elsewhere in this offering memorandum, are prepared in accordance with Colombian GAAP. Colombian GAAP, as applied in the preparation of all financial statements included elsewhere in this offering memorandum, differs in certain significant respects from IFRS. For a discussion of certain significant differences between Colombian GAAP and IFRS, see "Presentation of Financial and Other Information—Financial Statements—Effects of IFRS Adoption" and "Annex A—Summary of Certain Significant Differences Between Colombian GAAP and IFRS."

Our audited financial information as of and for the year ended December 31, 2012 gives effect to the TEMCO Merger as if it had occurred on January 1, 2012, but our and TEMCO's operations were actually combined only for the period following June 29, 2012. Accordingly, our audited financial statements for the year ended December 31, 2012 do not necessarily reflect our actual consolidated results of operations had the TEMCO Merger occurred as of January 1, 2012.

Changes in Colombian Accounting Standards

In July 2009, the Colombian Congress enacted Law 1314, which requires the gradual implementation in Colombia of internationally accepted standards for accounting, financial disclosure and internal controls. Subsequently, the CTPC issued the CTCP Guidance Document, which sets forth the types of Colombian companies required to adopt IFRS and the expected timetable for the implementation and adoption of IFRS in Colombia. Because Telefónica, our parent company, is required to prepare its financial statements under IFRS, we are also required to fully adopt IFRS in accordance with the CTCP Guidance Document.

In December 2012, the MHCP and the MCIT, issued Decrees 2706 of 2012 and Decree 2784 of 2012, as amended by Decree 3023 of 2013 and Decree 2615 of 2014, which included provisions for the mandatory implementation of IFRS by companies required to do so pursuant to the CTCP Guidance Document. These decrees set forth a mandatory transition period beginning on January 1, 2014 and require that our first fully-IFRS compliant financial statements be those for the year ending December 31, 2015. Accordingly, we are required to adopt IFRS beginning on January 1, 2015. Therefore, our financial statements as of and for the year ending December 31, 2015, and for any interim period in 2015 will be prepared in accordance with IFRS. For more information on the adoption of IFRS, see "Presentation of Financial and Other Information—Financial Statements—Accounting Principles."

However, Article 165 of Law 1607 of 2012, which adopted certain tax reforms, provides that solely for tax purposes, the accounting standards under Colombian GAAP will remain in effect during the four years following our adoption of IFRS in January 2015, in order to help measure the impact of IFRS on the tax regime for purposes of developing future tax legislation. In addition, Decree 2548 of 2014, enacted to facilitate compliance with this requirement, requires us to prepare our financial statements in accordance with IFRS while also maintaining additional accounting records for tax purposes that are prepared in accordance with Colombian GAAP between January 1, 2015 and December 31, 2018. We understand that additional official interpretations, rules or regulations relating to the application of Article 165 of Law 1607 of 2012 may be issued by the relevant tax authorities or other governmental authorities in Colombia in the future based on, among others, the provisions and timetable set forth under Decree 2548 of 2014. In the event that any such official interpretation, rule or regulation is issued and, as a result, we cease to be able to deduct our interest payments under the notes for Colombian tax purposes, then we would be entitled to redeem the notes at our option pursuant to the provision described in "Description of the Notes—Redemption and Repurchase—Redemption for Tax Deductibility Event."

Effects of IFRS Adoption

As discussed above, as of January 1, 2015, we are required to prepare and report our financial statements in accordance with IFRS, which differs in certain material respects from Colombian GAAP. See "Annex A – Summary of Certain Significant Differences Between Colombian GAAP and IFRS" and "Risk Factors—Risks Relating to Our Business and the Colombian Telecommunications Industry—Our Adoption of IFRS as of January 1, 2015 will result in the recognition of our PARAPAT Payment Obligations as liabilities on our balance sheet, among other effects on our financial statements."

While we have not yet prepared audited or unaudited financial statements in accordance with IFRS, the adoption of IFRS requires certain material changes to our financial statements, including the requirement that we recognize our PARAPAT Payment Obligations as liabilities on our balance sheet. Recognition of PARAPAT Payment Obligations as liabilities on our balance sheet, as well as other adjustments in our financial statements as a result of our adoption of IFRS, will have an adverse effect on our financial condition. For additional information on the effect of our adoption of IFRS, see "Risk Factors—Risks Relating to Our Business and the Colombian Telecommunications Industry—We expect that our adoption of IFRS will result in stockholders' equity of less than 50% of our capital stock, which could trigger a mandatory dissolution proceeding under Colombian law." For information on the measures we intend to take in order to mitigate the effects of our adoption of IFRS on our financial condition, see "Summary—First-time Adoption of IFRS."

Accounting treatment of the PARAPAT Agreement under IFRS

Under Colombian GAAP, the PARAPAT Agreement was recorded as an operating lease, which permits us to recognize the payment of the accrued PARAPAT Payment Obligations as a cost of sales and services in our statement of operations for the relevant period and did not require recognition of these obligations as a liability on our balance sheet. Furthermore, the property, plant and equipment and the amount of the PARAPAT Payment Obligation for the immediately following year, are recorded off-balance sheet as memorandum accounts, as permitted under Colombian GAAP.

Under IFRS, we are required to account for the PARAPAT Agreement as a financial lease. As a result, the net assets related to the PARAPAT Agreement will be recorded under our property, plant and equipment, intangible assets and other financial assets on our balance sheet and all PARAPAT Payment Obligations payable in the future will be recognized as a liability under other financial obligations. Also, under IFRS, we will be required to recognize in our statement of operations the depreciation expense related to the PARAPAT Assets and a portion of the accrued PARAPAT Payment Obligations payable in the relevant period as an interest expense. As of December 31, 2014, the net assets and financial liabilities related to the PARAPAT Agreement amounted to COP$933,380 million and COP$3,972,797 million, respectively. After the adoption of IFRS, we will recognize such net assets and financial liabilities on our balance sheet.

Asset Revaluation

Under IFRS 1 – First-time Adoption of International Financial Reporting Standards, we are allowed to measure certain of our property, plant and equipment, including land and buildings, at their fair value at the date of transition to IFRS and use that fair value as the deemed cost of such property, plant and equipment. Fair value becomes the "deemed cost" going forward under the IFRS cost model. We intend to take advantage of this option available to entities adopting IFRS for the first time and have engaged an internationally recognized accounting firm to determine the fair value of certain of our land and buildings. The application of this methodology will result in an increase of COP$508,538 million in the recorded value of our net assets as of December 31, 2014, as compared to the values recorded pursuant to Colombian GAAP.

Deferred Taxes

Under Colombian GAAP, we record as a deferred tax liability or asset the effect of timing differences involving the payment of a lower or higher income tax in the current year, provided that a reasonable expectation exists such differences will reverse based on our estimated future profits for tax purposes. However, we are not allowed to recognize any deferred taxes with respect to accumulated tax losses or excess of presumptive income. We generated a profit for tax purposes with respect to the year ended December 31, 2014, which allowed us to use our accumulated tax losses to offset our taxable income and to recognize deferred taxes with respect to tax credits from timing differences.

Under IFRS, we are allowed to record as a deferred tax liability or asset not only the effect of timing differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities, but also other tax benefits such as accumulated tax losses and excess of presumptive income, provided that a reasonable expectation exists such differences will reverse or such tax benefits may be used to offset our income tax expense, based on our estimated future profits for tax purposes. As of December 31, 2014, we had tax credits of COP$2,329,487 million, of which COP$659,591 million correspond to accumulated tax losses and excess of presumptive income and COP$1,669,896 million correspond to timing differences between the tax bases of existing assets and liabilities and financial statement carrying amounts. We estimate that, as of December 31, 2014, we could recover COP$1,031,710 million of net deferred taxes, of which COP$332,685 million correspond to accumulated tax losses and COP$699,025 million to timing differences, that were not permitted to be recorded as such under Colombian GAAP.

Reconciliation of Our Shareholders' Equity to IFRS

Because we are adopting IFRS for the first time, we are required to prepare an opening balance sheet under IFRS on the date of transition, which in our case was January 1, 2014.

We are also required to apply the same accounting policies in all periods presented in our first complete set of audited financial statements prepared under IFRS, which in our case will be our audited financial statements as of and for the year ended December 31, 2015. Such accounting policies must comply with IFRS rules and regulations effective as of the reporting date for our first complete set of audited financial statements prepared under IFRS, which in our case will be all IFRS rules and regulations effective as of December 31, 2015.

Our opening balance sheet as of January 1, 2014 and our comparative financial information under IFRS as of and for the year ended December 31, 2014 will be finalized upon the completion of our audited financial statements prepared under IFRS as of and for the year ended December 31, 2015. We refer to our shareholder's equity under IFRS as our "preliminary estimated shareholders' equity" as of December 31, 2014 under IFRS. The following information has not been subject to any review or audit procedures by our independent auditors. Accordingly, we cannot provide any assurance the information presented in the table below is accurate and complete, and such information may be subject to change upon the preparation of our first audited financial statements under IFRS as of and for the year ended December 31, 2015.

The table below provides a reconciliation of Colombian GAAP to IFRS for our shareholders' equity as of December 31, 2014.

	As of December 31,	
	2014	2014
	(in millions of U.S.$)(1)	*(in millions of pesos)*
Shareholders' equity under Colombian GAAP	**406.9**	**973,420**
PARAPAT liabilities	(1,660.6)	(3,972,797)
PARAPAT assets	390.1	933,380
Deferred taxes, net (2)	413.3	988,930
Asset revaluation	212.6	508,538
Other IFRS adjustments (3)	(169.6)	(405,831)
Preliminary estimated shareholders' equity under IFRS	**(407.3)**	**(974,360)**

(1) Solely for the convenience of the reader, Colombian *pesos* amounts as of December 31, 2014 have been translated into U.S. dollars at the exchange rate published by the Central Bank on December 31, 2014 of COP$2,392.46 to U.S.$1.00. See "Foreign Exchange Controls and Exchange Rates" for further information about recent fluctuations in exchange rates.

(2) The deferred taxes, net corresponds to the difference between (i) COP$1,031,710 million of net deferred taxes under IFRS as of December 31, 2014, and (ii) COP$42,780 million in deferred taxes we recognized in our balance sheet as of December 31, 2014 under Colombian GAAP.

(3) Includes differences generated mainly by: (a) the adjustment to the fair value of our intangible assets in an amount of COP$130,074 million, resulting from the net effect of the difference between the residual value of our intangible assets under IFRS and under Colombian GAAP; (b) a decrease in the value of property plant and equipment of COP$97,709 million (in accordance with Colombia GAAP valuation rules, not applicable under IFRS), resulting from the application of IFRS 1, due to our decision to use depreciated costs as deemed costs for certain fixed assets; (c) provisions of COP$33,486 million for asset retirement obligations related to certain equipment; and (d) grants from the Colombian government in the amount of COP$36,362 million, which under IFRS (IAS 20) are recognized as a deferred income and are amortized during the expected life of such assets, as compared to Colombian GAAP under which they are recognized as income at the time the government approves such grant.

For additional information on certain significant differences between Colombian GAAP and IFRS, see "Annex A – Summary of Certain Significant Differences Between Colombian GAAP and IFRS."

Critical Accounting Policies and Estimates

In preparing our financial statements, we rely on estimates and assumptions derived from historical experience and on various other factors deemed reasonable and relevant. Our accounting policies and estimates are described in note 3 to our audited financial statements.

Critical accounting policies are those that are important to the portrayal of our financial position and results of operations and require management's subjective and complex judgments, estimates and assumptions. The application of these critical accounting policies often requires judgments made by management regarding the effects of matters that are inherently uncertain with respect to our results of operations and the carrying value of our assets and liabilities. Our results of operations and financial position may differ from those set forth in our financial statements, if our actual experience differs from management's assumptions and estimates. In order to provide an understanding of our critical accounting policies, including some of the variables and assumptions underlying the estimates, and the sensitivity of those assumptions and estimates to different parameters and conditions, we set forth below a discussion of our critical accounting policies relating to:

- revenue recognition;
- allowance for doubtful accounts;
- depreciation of property, plant and equipment;
- contingencies;
- intangible assets;
- derivatives instruments;
- income tax;
- deferred taxes; and
- memorandum accounts.

Revenue Recognition

We generally recognize revenues on an accrual basis. That is, revenues are recognized at the time goods are delivered or services are rendered, regardless of the timing of the cash flow (whether payment is received in advance, simultaneous with delivery of goods or rendering of services or on credit). We consider revenue recognition to be a critical accounting policy because of the uncertainties caused by different factors such as the complex IT required to track services, the high volume of services and other transactions, fraud and piracy, accounting regulations, management's determination of collectability and each company's right to receive certain revenues for the use of their networks.

For our fixed-line telecommunications services, we generally recognize revenues from the provision of local, long-distance, interconnection, television and value-added services, as well as telephone directory services, equipment sales and rentals, among others, when the right to such revenues arises, either at the time the services are rendered or by estimation of the amount of services rendered but unbilled. Revenues are recorded based on an estimated amount of services provided during the month. We estimate revenues from services, including value-added services, based on preliminary information provided by billers, additions and churn rates, current rates and other readily verifiable variables. At the end of each month, reconciliation between projected revenues and invoiced revenues is performed, and if differences are identified, the estimates are adjusted. For all other services and products, revenues are recognized when the services have been rendered and revenues are deemed certain, probable and estimable.

For our mobile telecommunications services, we generally recognize revenues from airtime and traffic and from roaming, interconnection and value-added services, including, among others, text messaging, data transmission and content, as well as equipment sales and rentals. Revenues from the sale of equipment are generally recognized when the ownership of the equipment is transferred or delivered to the buyer. Products and services may be sold separately or jointly in commercial packages.

Revenues from traffic services are calculated based on a fixed initial origination rate *plus* the applicable per minute rate, which varied for each subscription plan; the airtime; whether the call was a local or long-distance call and the type of service. Revenue is recognized as the services are rendered. Unbilled revenues for the use of airtime results from services rendered as of the close of the billing cycle and is computed based on the rates applicable to the plan for the line. These estimates are reversed as actual used traffic is invoiced.

Revenues from the sale of prepaid cards are recognized as income in the month in which the traffic is used or the card expired, whichever occurs first. The unused traffic under prepaid cards was recorded as deferred income under current liabilities.

Revenues from roaming are recognized based on traffic used and the rates negotiated with each international carrier and taking into consideration the estimated discounts for traffic volume. Once traffic is reconciled, the actual rates are recognized and the estimates are adjusted accordingly.

Revenues from interconnection charges are recorded using the accrual method as revenues or as expenses, as applicable. Revenues are generated from charging other providers for the use of our network and expenses are generated when we use the networks of other providers. Internal access charges are recorded, as revenues for the local telephony unit and expenses for the long-distance unit. Revenues from interconnection services for fixed-to-mobile, mobile-to-fixed and mobile-to-mobile calls, as well as for other services used by the clients originating from one network and completed in another network, are recognized in the period the calls were made.

Revenues from sale of handsets are recognized when the property is transferred.

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

Allowance for Doubtful Accounts

We record an allowance for doubtful accounts in order to recognize probable losses on accounts receivable and to account for limitations each imposes that restrict the provision of services to customers with past-due accounts and for actions each takes to collect delinquent accounts. The recognition of write-offs on accounts receivable is made by a charge against provisions for accounts receivables, offset by a charge to the client's accounts receivable or doubtful accounts receivable, as appropriate. The amount of the accounts receivable that is offset against the provision is recorded in a memorandum account. In the event it is collected, the balance of the memorandum account is reduced, and revenue is posted for recovery of accounts receivable. See "—Memorandum Accounts."

Our allowance for doubtful accounts, which includes interest, default interest and financing expenses, is reviewed and updated at the end of each fiscal year based on risk analysis criteria, days past due and recovery evaluations performed by management on the individual accounts.

We determine our allowance for doubtful accounts in connection with fixed-line services as follows:

- Amounts past due more than 120 days are 100% provisioned.
- Account receivables from government clients are 100% provisioned when they are past due more than 720 days.
- Financed customer sales are 100% provisioned.
- Interconnection receivables from local and international operators past due more than 60 and 180 days, respectively, are 100% provisioned.
- Other accounts receivable past due more than 120 days are 100% provisioned.

- The long-distance provision is computed by applying a non-recoverability factor to revenue from these long-distance services that are invoiced by other operators, which are estimated according to the behavior of the debt recovery of the local telephony services.

- Receivables from sales of equipment past due more than 90 days are 100% provisioned, including outstanding installments not yet invoiced.

We determine our allowance for doubtful accounts in connection with mobile services as follows:

- By Type of Customer:

  - *Residential and SME customers*: Amounts past due more than 105 days are 100% provisioned.

  - *Corporate customers*: Amounts past due between 90 and 135 days are 5% provisioned; amounts past due more than 135 days are 100% provisioned.

  - *Governmental Entities*: Amounts past due more than 180 days are 100% provisioned.

- By Distribution Channel:

  - *Commercial Agents; Recharge*: Amounts past due more than 90 days are 100% provisioned.

  - *Chain Stores*: Amounts past due more than 150 days are 100% provisioned.

- Interconnection receivables from local and international operators past due more than 60 days are 100% provisioned.

Depreciation of Property, Plant and Equipment

We recognize property, plant and equipment at their acquisition cost, which includes financing expenses and the foreign exchange differences related to the foreign currency-denominated liabilities incurred to finance their acquisition. Depreciation is calculated using the straight-line method over the estimated useful life of the asset. The determination of useful lives requires estimates regarding expected technological progress and alternative uses for assets. Assumptions regarding the technological framework and its future development require a significant degree of judgment, as the timing and nature of future technological changes is difficult to predict. Gains or losses recognized upon the disposition of property, plant and equipment are recognized in the period in which the disposition occurs. Costs for maintenance and repair of assets that are in the ordinary course are not capitalized unless they significantly improve the efficiency or extend the life of the asset.

Contingencies

We may have certain contingencies on the date that our financial statements are issued. These contingencies may ultimately result in a loss to us and are estimated by our management and legal counsel. The estimated loss from such contingencies necessarily involves an exercise of judgment and subjective estimation. In estimating an unfavorable outcome with respect to legal proceedings pending against us, our legal counsel evaluates, among other things, the merits of the claims, the relevant case law and the current status of each proceeding.

If an evaluation of the contingency indicates that an unfavorable outcome is probable and the amount of the liability can be estimated, then we record it in our financial statements. If the assessment indicates a potential unfavorable outcome is not likely but the outcome is uncertain, or if an unfavorable outcome is probable but the amount cannot be estimated, then the nature of the contingency and an estimated range of loss is disclosed in the notes to the financial statements. Contingencies with losses estimated as possible or remote are generally recognized in memorandum accounts.

Intangible Assets

Intangible assets are recorded at cost, which includes financing costs and exchange differences on foreign currency liabilities incurred during their acquisition before they become available for use. Amortization is calculated using the straight-line method over the estimated useful life of the intangible asset, which is calculated as the lesser of the asset's estimated period of operation and the duration of the asset's legal or contractual term of availability.

We record as an intangible asset (i) the right to use radio spectrum for the provision of telecommunications services (other than mobile and television services), using point-to-point and multi-point distribution systems on a municipal, departmental or national level, (ii) licenses for the operation of satellite television services, (3) concessions and permits to use our radio spectrum for the provision of mobile telecommunications services and (4) goodwill. Licenses obtained under a concession for the operation of satellite television services and concessions and permits to use radio spectrum for mobile telecommunications are amortized over a useful life of 10 years. Other licenses to operate platforms of commercial and administrative project information systems are amortized over a useful life of three years. Goodwill is amortized over a useful life of up to 20 years.

Derivative Instruments

We use derivative instruments to manage our exposure to changes in foreign exchange and interest rates. We record these instruments at their fair market value based on market quotations for similar instruments, and based on standard mark-to-market practices, which take into account reliable market curves for interest rates, foreign exchange rates and volatility. We do not hold derivative instruments for speculative purposes.

Income Taxes and Wealth Tax

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

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

In addition, we are also required to pay an annually decreasing wealth tax (*impuesto a la riqueza*) of 1.15% in 2015, 1.0% in 2016 and 0.4% in 2017, calculated on the basis of our net worth (total assets *minus* total liabilities). See "—Factors Affecting Our Operating Results—Effects of Changes in Tax Laws."

Deferred Taxes

The effect of timing differences involving the payment of a lower or higher income tax in the current year is recorded as a deferred tax liability or asset, respectively, provided that a reasonable expectation exists such differences will reverse. Our management assesses the recoverability of deferred tax assets on the basis of estimates of future taxable income, since the recoverability of deferred tax assets ultimately depends on our ability to generate sufficient taxable income during the periods in which such temporary differences are expected to become deductible or for the recovery of cumulative tax loss carryforward.

Memorandum Accounts

Colombian GAAP requires that certain items be reported as memorandum accounts (*cuentas de orden*), and that such accounts be disclosed, but not recognized, in the balance sheet and in the notes to the financial statements. Memorandum accounts are not an IFRS measure. Memorandum accounts are contingent on future events; therefore, the future monetary impact of memorandum accounts on our results of operations and financial condition may vary substantially from the amounts reported on that account for any given period. The items included by us under this heading include the following:

- *Contingent liabilities*. Refers to potential obligations under guarantee contracts and to potential obligations generated under hedging transactions involving long positions in put options, particularly in connection with zero-cost collars.

- *Contingent rights*. Refers to potential rights generated under hedging transactions involving short positions in call options, particularly in connection with zero-cost collars.

- *Fiscal debit and credit accounts*. Refers to the monetary difference between the application of accounting standards for reporting purposes and the application of tax standards. These amounts do not entail potential gains or losses for the company and are only disclosed for control purposes.

- *Legal proceedings*. Refers to potential rights or obligations arising out of legal proceedings. The expected outcome of legal proceedings is assessed and classified as remote, possible or probable. A creditor memorandum account is recorded for any monetary claims arising out of lawsuits in which the company acts as defendant and in connection with which the company estimates that an adverse judgment is remote or possible. If the company estimates that an adverse judgment is probable, then the claim is not disclosed in memorandum accounts, but rather is provisioned on the company's balance sheet. A debtor memorandum account is recorded for any lawsuits where the company acts as plaintiff.

- *Control credit accounts*. Corresponds to third-party property in the possession of the company. This account is used for control purposes only.

- *Control debit account*. Corresponds to written-off depreciable assets and obsolete inventory, as well as to the PARAPAT Assets. See "Business—PARAPAT Agreement."

Factors Affecting Our Operating Results

Effect of Economic Conditions in Colombia

Because we derive our revenues from our operations in Colombia, we are affected by economic conditions in the country. According to the DANE, from 2009 through 2012, Colombia's GDP grew at an annual average rate of 4.1% and in 2013 and during the nine-month period ended September 30, 2014, it grew by 4.7% and 5.0%, respectively. The revenues generated by companies in the Colombian telecommunication industry are largely correlated with GDP growth. Historically, a slowdown in Colombia's GDP growth has led to a slowdown in the demand for telecommunications services. A substantial and prolonged deterioration of economic conditions in Colombia could have a material adverse effect on the number of subscribers to our services and the volume of usage of our services by our subscribers and, as a result, our net operating revenue.

Central Bank independence, and the adoption of an inflation-targeting regime and a free-floating currency in 1999, have contributed to declining inflation rates and increased price stability in Colombia. According to the DANE, Colombia's annual inflation rate as measured by the Consumer Price Index (*Indice de Precios al Consumidor*, or IPC) was 3.7% in 2014 and 1.9% in 2013, in each case within the Central Bank's target band of 2.0% to 4.0%. Even though some of our tariffs are benchmarked to the IPC and other similar indicators of inflation, effects thereof are passed-through to end users. However, our PARAPAT Payment Obligations are linked to the IPC, so high inflation rates may have an adverse effect in our results of operations.

The following table sets forth the year-over-year changes in Colombia of various key economic indicators, including the GDP, the IPC, the unemployment rate and the benchmark interest rate, as well as a comparison of these changes to the changes in the growth in the telecommunications industry in Colombia for the periods indicated.

	For the Year Ended December 31,					
	2014	2013	2012	2011	2010	2009
			(*percentages*)			
Real GDP	5.0(1)	4.7	4.0	6.6	4.0	1.7
IPC	3.7	1.9	2.4	3.7	3.2	2.0
Unemployment	8.7	8.4	9.6	9.8	11.1	11.3
DTF(2)	4.3	4.1	5.3	5.0	3.5	4.1
IBR(3)	4.4	3.2	4.1	4.7	3.0	3.1
Telecommunications sector as percentage of GDP	3.1	3.1	3.2	3.2	3.2	3.1

Source: DANE and Central Bank.

(1) For the nine-month period ended September 30, 2014.

(2) Term Deposits Rate (*Depósito a Término Fijo*, or DTF).

(3) Colombian Interbank Reference Rate (*Interés Bancario de Referencia*, or IBR). This reference rate was first calculated and published in 2008.

Effects of our Payment Obligation under the PARAPAT Agreement

In 2003, as part of the reorganization of Telecom, the legacy state-owned telecommunications services provider in Colombia, we executed the PARAPAT Agreement, pursuant to which we acquired the exclusive right to use and operate the telecommunications assets previously owned by Telecom and certain of its affiliates. The amounts paid by us in the past and payable by us in the future under the PARAPAT Agreement are used by the PARAPAT to fund the remaining liabilities of the liquidated companies, including the payment of the outstanding labor and pension obligations to the former employees of Telecom and its affiliates.

During 2011 and the first quarter of 2012, we failed to meet our PARAPAT Payment Obligations and sought an amendment of the terms and conditions of the PARAPAT Agreement. We believe this inability to pay was mainly due to regulatory and market trend changes, including, among others, the modification of the access charges regime, the substitution of fixed-line services by mobile services and the fact that the growth of broadband Internet and television services did not offset the impact of said substitution. All of these factors had an adverse effect on our traditional business model and our ability to generate the level of revenues required to meet our continuing obligations to the PARAPAT. On March 30, 2012, we and the PARAPAT executed a payment agreement to restructure these past-due PARAPAT Payment Obligations, or the PARAPAT Payment Agreement. At the time we executed the PARAPAT Payment Agreement, our total past-due PARAPAT Payment Obligations amounted to COP$767,732 million, of which COP$664,171 million corresponds to past due PARAPAT Payment Obligations and COP$103,562 corresponds to default interest. On March 30, 2012, we, TEMCO, PARAPAT and the Republic of Colombia (acting through the MHCP) also executed an amendment to the PARAPAT Agreement pursuant to which, among other items, the Republic of Colombia assumed the payment of 47.97% of our future PARAPAT Payment Obligations and TEMCO assumed the payment of the remaining 52.03%. In connection with TEMCO's assumption of our payment obligations under the PARAPAT Agreement, TEMCO and PARAPAT entered into a restructuring agreement on March 30, 2012, or the PARAPAT Restructuring Agreement, pursuant to which the parties agreed on a new payment schedule for the portion of the PARAPAT Payment Obligations assumed by TEMCO. As a result of the TEMCO Merger, we assumed all of TEMCO's obligations under both the amended PARAPAT Agreement and the PARAPAT Restructuring Agreement.

Our PARAPAT Payment Obligation for 2014 was COP$292,452 million for 2013 was COP$148,463 million and for 2012 was COP$131,389 million.

For additional information on the PARAPAT Payment Agreement, the PARAPAT Agreement, the PARAPAT Restructuring Agreement and the calculation of these PARAPAT Payment Obligations see "— Contractual Obligations and Commitments—PARAPAT Payment Obligations" and "Business—PARAPAT Agreement."

Effects of Demand for Our Telecommunications Services

The Colombian telecommunications industry is highly competitive. The competitive environment is significantly affected by key trends, including the convergence of technology and services, which enables telecommunications service providers that were previously limited to providing a single service to provide services in other industry segments, such as in the case of broadband services provided by cable television service providers and by mobile service providers (using 3G and 4G technologies) and in the case of traditional fixed-voice services transmitted by mobile telecommunications service providers.

Demand for Our Mobile Services

We believe that our customer base for mobile services has grown from 11.7 million as of December 31, 2012 to 12.8 million as of December 31, 2014, primarily as a result of the broad market shift to mobile services and the success of our marketing and promotional campaigns, our innovative product offerings and the launch of new services. However, the market is highly competitive. We incur selling expenses in connection with marketing and sales efforts designed to retain existing mobile customers and attract new mobile customers. Also, from time to time, we offer discounts in connection with our promotional activities, which lead to charges against our gross operating revenue from mobile services. In addition, competitive pressures have in the past required us to introduce service plans under which the monthly and per-minute rates that we charge our mobile customers are lowered, reducing our average revenue per customer.

Demand for Our Data Transmission Services

The number of Internet subscribers in Colombia increased by 9.7% to 4.9 million as of September 30, 2014 from 4.5 million as of December 31, 2013. We have been able to take advantage of this growth in demand by enlisting new subscribers and increasing our revenues from Internet services each year since 2007. Our broadband services customer base has grown from 703,312 as of December 31, 2012 to 959,175as of December 31, 2014. We believe that this growth has resulted from (i) our marketing and promotional campaigns, (ii) the growth in the number of households that own personal computers, and (iii) a shift in consumer preferences that has led an increasing number of our fixed-line customers to value the data transmission speeds available through our broadband services. The growth in our revenues from data transmission services has partially offset the decrease in our revenues from fixed-line telephone services.

Demand for Our Local Fixed-Line Services

Since 2000, traditional voice customers (local and long-distance customers) in Colombia have increasingly been migrating to new generation services such as mobile telephone services and Internet. The proportional share of revenues derived from the provision of traditional voice services in relation to the overall revenues from the industry has been decreasing steadily since 2000. We intend to address this trend by (i) offering value-added services to our fixed-line customers, primarily subscriptions for broadband services and (ii) promoting convergence of our telecommunications services through offerings of bundled packages of local fixed-line, long-distance, mobile and broadband services. However, we cannot assure you that we will be successful. As of December 31, 2014, 66.6% of our fixed-line customers also subscribed to at least one additional service.

Effects of Our Level of Indebtedness and Interest Rates

As of December 31, 2014, our total outstanding indebtedness (which corresponds to our financial obligations and bonds and securities) was COP$4,060,076 million, of which COP$352,278 million was short-term indebtedness and COP$3,707,798 million was long term indebtedness represented by COP$1,913,453 million in bank loans and COP$1,794,345 million in bonds and securities. Our financial expenses consisted of interest expense, exchange variations of U.S. dollar-denominated debt, foreign exchange losses or gains, and other items as set forth in note 26 to our audited financial statements. We recorded financial expenses, net of COP$363,778 million in 2014. As of December 31, 2014, 51.0% of our total outstanding indebtedness bore interest at floating rates, mainly DTF, IBR and LIBOR *plus* a spread, and the remaining 49.0% bore interest at fixed rates.

As December 31, 2014, 29.7% of our dollar-denominated debt was linked to LIBOR. The average six-month LIBOR was 0.30% in 2014, 0.41% in 2013 and 0.68% in 2012. As of December 31, 2014, 87.0% of our peso-denominated indebtedness was linked to the DTF and IBR. DTF is the benchmark interest rate that represents the Colombian financial system's average rate for 90-day term deposits and the IBR is the benchmark interest rate that represents the money market liquidity for overnight, one-month and three-month term, respectively**.** Accordingly, changes in the DTF and IBR affect our interest expense. The average DTF was 4.1% in 2014, 4.2% in 2013 and 5.3% in 2012. The average one-month IBR was 3.8% in 2014, and 3.3% in 2013.

The interest rates that we pay depend on a variety of factors, including prevailing Colombian and international interest rates and risk assessments of our company, our industry and the Colombian economy made by potential lenders to our company, potential purchasers of our debt securities and the rating agencies that assess us and our debt securities.

Effects of Fluctuations in Exchange Rates between the Colombian Peso and the U.S. Dollar

Substantially all of our revenues and operating expenses, other than depreciation and amortization, are incurred in Colombian *pesos* in Colombia. As a result, the appreciation or depreciation of the Colombian *peso* against the U.S. dollar does not have a material effect on our operating margins. However, the costs of a substantial portion of the network equipment and handsets that we purchase for our capital expenditure projects, which we recognize over time through depreciation and amortization, are U.S. dollar-linked or, to a lesser extent denominated in U.S. dollars. The network equipment and handsets are recorded on our balance sheet at their cost in Colombian *pesos* based on the contractual exchange rate or at the exchange rate on the date the transfer of ownership, risks and rewards related to the purchased equipment and handset occurs. As a result, depreciation of the Colombian *peso* against the U.S. dollar results in the network equipment and handsets being more costly in Colombian *pesos* and leads to higher depreciation charges subsequent to the acquisition and use of the assets. Conversely, appreciation of the Colombian *peso* against the U.S. dollar results in the network equipment and handsets being less costly in Colombian *pesos* and leads to lower depreciation charges. The Colombian peso depreciated by 1.5% against the U.S. dollar in 2011, appreciated by 9.0% during 2012, depreciated again by 9.0% during 2013, and further depreciated by 24.2% during 2014.

As of December 31, 2014, COP$2,554,166 million (COP$2,369,362 million net of exchange rate hedging instruments related to our financial indebtedness) of our total outstanding indebtedness was denominated in U.S. dollars, of which COP$205,404 million (COP$165,306 million net of exchange rate hedging instruments related to our financial indebtedness) was short-term indebtedness, including the current portion of long-term indebtedness, and COP$2,348,762 million (COP$2,204,056 million net of exchange rate hedging instruments related to our financial indebtedness) was long-term indebtedness. Our U.S. dollar-denominated indebtedness represented 62.9% of our outstanding indebtedness as of December 31, 2014. When the Colombian *peso* depreciates against the U.S. dollar:

- the interest costs on our U.S. dollar-denominated indebtedness increase in Colombian *pesos*, which negatively affect our results of operations in Colombian *pesos*;

- the amount of our U.S. dollar-denominated indebtedness increases in Colombian *pesos*, and our total liabilities and debt service obligations in Colombian *pesos* increase; and

- our net financial expenses tend to increase as a result of foreign exchange losses that we must record.

An appreciation of the Colombian *peso* against the U.S. dollar has the converse effects.

In order to mitigate the effects of foreign exchange variations, Telefónica established a global hedging policy, which requires its subsidiaries, including us, to hedge all of their exposure to foreign exchange risk either through natural hedges or derivatives. As of December 31, 2014, we had entered into hedging agreements in respect of 100% of our U.S. dollar-denominated financial indebtedness and, as of the same date, our total outstanding indebtedness net of exchange rate hedging instruments related to our financial indebtedness was COP$3,875,272 million. We also had outstanding hedging agreements in a nominal amount of U.S.$185.8 million as of December

31, 2014 in respect of our net exposure to foreign exchange variations arising from the mismatch between our foreign currency-denominated investments, accounts payable and accounts receivable. We cannot assure you that we will maintain similar hedge positions in the future or that our hedging policy will successfully mitigate effects of any foreign exchange variations. See "—Quantitative and Qualitative Disclosures About Market Risk—Foreign Exchange and Interest Rate Risk."

Effect of our Status as an **Empresa de Servicios Públicos**

Pursuant to applicable Colombian tax laws, Colombian corporations must pay income tax at a rate of 25% and a CREE tax at a rate of 9.0%, in each case, calculated on the basis of such corporation's net taxable income or presumptive income, whichever is higher. Pursuant to Colombian tax regulations, presumptive income is equal to 3.0% of the net tax equity (*patrimonio líquido fiscal*) of the respective entity on the last day of the immediately preceding taxable year. Given our status as a public utilities company (*empresa de servicios públicos*), and the exceptions for public utilities companies set forth in Article 73 of Law 1341 and Article 24 of Law 142, we have not determined nor paid income tax pursuant to our presumptive income; however, this exemption does not apply to the CREE tax, which we are required to pay despite our status as a public utilities company.

Because we are required to pay the CREE tax, we are also required to pay the related surcharge on the CREE tax, in accordance with Law 1739. This surcharge is applicable to our income in excess of COP$800 million, at a rate of 5.0% for 2015, 6.0% for 2016, 8.0% in 2017 and 9.0% in 2018. The surcharge will be eliminated in 2019.

Effect of our Accumulated Tax Losses and Excess of Presumptive Income

Since 2007, Colombian taxpayers are permitted to carry forward tax losses, or net operating losses, without limitation as to time or amount to offset future taxable income. In addition, taxpayers may also carry forward the excess of presumptive tax over net income to offset future taxable income for up to five years after the date on which the relevant tax return is filed with the Colombian tax authorities. As of December 31, 2014, we had recorded in our memorandum accounts, accumulated tax losses and excess presumptive income in a total amount of COP$2,638,363million.

The following table sets forth our tax losses as of December, 2014:

Year	Tax loss	Inflation adjustment–Tax Readjustment	Adjusted tax loss	Amortization	Balance pending compensation	Expiration date
			(in millions of *pesos*)			
2006	17,774	6,196	23,970	23,970	-	2014
2007	178,565	50,455	229,020		229,020	Unlimited
2008	252,873	48,622	301,495		301,495	Unlimited
2009	607,726	101,694	709,420		709,420	Unlimited
2010	311,342	46,166	357,508		357,508	Unlimited
2011	480,733	53,536	534,270		534,270	Unlimited
2012	190,148	10,191	200,338		200,338	Unlimited
2013	182,180	5,265	187,445		187,445	Unlimited
	2,221,341	**322,125**	**2,543,466**	**23,970**	**2,519,496**	

The following table sets forth our excess of presumptive income over net income as of December 31, 2014:

Year	Fiscal loss value	Inflation adjustment–Tax Readjustment	Adjusted tax loss	Amortization	Balance pending compensation	Expiration date
			(in millions of *pesos*)			
2009	63,261	9,596	72,857	72,858	—	2014
2010	54,603	6,839	61,442		61,442	2015
2011	52,897	4,529	57,426		57,426	2016
	170,761	**20,964**	**191,726**	**72,858**	**118,868**	

Effects of Legal and Regulatory Developments Affecting the Colombian Telecommunications Industry

The agencies that regulate the telecommunications industry in Colombia may take actions that affect our operations and profitability. The nature and degree of the regulation and legislation affecting telecommunications companies in Colombia has become significantly more comprehensive during the past decade. Such laws and regulations relate to, among other things, required licenses, permits and other approvals, the fees that we may charge for our services, the terms and conditions which apply to our services contracts, our ability to recover various categories of costs and the acquisition, construction and disposition of facilities. In particular, the CRC regulates certain fees we are permitted to charge other telecommunications service providers in consideration for interconnecting with our network. If (i) the services tariff rates were reduced or redesigned pursuant to regulations issued by the CRC in the future, (ii) the many relevant aspects of the business including volume of business under currently permitted rates were decreased significantly, or (iii) we were required to substantially discount the rates for our services because of regulatory pressure, the profitability of our businesses could be significantly affected.

For instance, as a result of the revised interconnection charges for mobile networks approved by the CRC in 2010, the maximum rate we can charge to our fixed-line subscribers for fixed-to-mobile calls was reduced in 2010 from COP$195 to COP$184 per minute. The applicable interconnection rate for fixed-to-mobile calls during 2015 is approximately COP$88.91.

Access charges applicable to mobile networks are regulated by the CRC in accordance with Resolution 1763 of 2007, as amended by Resolution 3136 of 2011. As a result, the mobile termination rates have decreased from COP$84.15 per minute in 2012 to COP$42.49 per minute in 2015. In addition, in order to address asymmetric pricing caused by market concentration, the CRC issued Resolution 4002 of 2012 and Resolution 4050 of 2012, which imposed on Claro Colombia a mobile termination rate reduction scheme until 2015. In addition, the CRC issued Resolution 4660 of 2014 which set forth a revised band for mobile termination rates, resulting in the extension of the asymmetric charges through 2017. See "Business—Our Services—Interconnection."

In July 2012, the ANTV issued Resolution 45 of 2012, providing that providers of subscription television services in Colombia should pay the ANTV an amount equal to COP$1,874 per subscriber as a monthly fee to use infrastructure in the provision of subscription television services in accordance with the related concession agreement. In addition, pursuant to Resolution 1372 of 2014, this amount increased to COP$1,906.13 as of January 1, 2015.

Effects of Changes in Tax Laws

Recently, through Law 1739, the Colombian government approved certain changes to the Colombian tax code, including the following:

- *CREE tax rate and surcharge*. Prior to the implementation of Law 1739, the CREE tax rate was 9.0% for 2014 and 2015 and 8.0% for 2016 onward. Pursuant to Law 1739, the CREE tax rate is 9.0% for 2016 onward. In addition, Law 1739 created an annually increasing surcharge of 5.0% in 2015, 6.0% in 2016, 8.0% in 2017 and 9.0% in 2018 applicable to our taxable income exceeding COP$800 million. The CREE tax and the corresponding surcharge are calculated taking into consideration the greater of our taxable income or our presumptive income. Under applicable regulations, presumptive income is equivalent to 3.0% of the net tax equity (*patrimonio líquido fiscal*) on the last day of the immediately preceding taxable year. The surcharge will be eliminated in 2019.

- *Wealth tax*. Law 1739 created a wealth tax applicable to Colombian companies with net worth (total assets *minus* total liabilities) in Colombia in excess of COP$1,000 million. This new wealth tax has replaced the prior net worth tax that was in effect through 2014. The wealth tax is calculated on January 1 of each year and is subject to an annually decreasing rate of 1.15% in 2015, 1% in 2016 and 0.40% in 2017. Law 1739 provides that companies may choose to either (a) recognize the expense associated with the payment of the wealth tax in their statement of operations for each accrued fiscal period or (b) offset it against equity reserves on their balance sheets. We recognize the expense associated with the payment of the wealth tax in our statement of operations.

- *Tax on financial transactions.* Prior to the implementation of Law 1739, the financial transactions tax rate was originally 0.4% and would be progressively reduced until its elimination in 2018. Law 1739 extended its applicability through 2021, subject to an annually decreasing rate of 0.4% until 2018, 0.3% for 2019, 0.2% for 2020 and 0.1% for 2021. The financial transactions tax will be eliminated in 2022.

Recent Developments

Since December 31, 2014, we have incurred COP$215,710 million of additional short-term indebtedness to finance our working capital requirements.

Results of Operations

For the years ended December 31, 2014 and 2013

In this section we present certain information regarding our financial and operating results for the years ended December 31, 2014 and 2013. This information should be read in conjunction with, and is qualified in its entirety by reference to, our 2014 audited financial statements included elsewhere in this offering memorandum.

The following table sets forth the principal components of our net income for the years ended December 31, 2014 and 2013:

	For the year ended December 31,		Variation	
	2014	2013	Amount	Percentage
	(*in millions of* pesos)			(%)
Net revenues	4,639,999	4,200,775	439,224	10.5
Cost of sales and services	(1,868,220)	(1,688,290)	179,930	10.7
Gross profit before PARAPAT Payment Obligations	**2,771,779**	**2,512,485**	259,294	10.3
PARAPAT Payment Obligations	(292,452)	(148,463)	143,989	97.0
Gross profit	**2,479,327**	**2,364,022**	115,305	4.9
Administrative expenses	(378,617)	(366,757)	11,860	3.2
Provisions	(79,790)	(65,583)	14,207	21.7
Selling expenses	(631,548)	(641,768)	(10,220)	(1.6)
Operating expenses	**(1,089,955)**	**(1,074,108)**	15,847	1.5
Operating income before depreciation and amortization	**1,389,372**	**1,289,914**	99,457	7.7
Depreciation of property, plant and equipment	(628,465)	(644,553)	(16,088)	(2.5)
Amortization of intangibles	(155,388)	(287,969)	(132,581)	(46.0)
Amortization of deferred charges	(269,915)	(284,412)	(14,497)	(5.1)
Depreciation and amortization	**(1,053,768)**	**(1,216,934)**	(163,166)	(13.4)
Operating income (loss)	**335,604**	**72,980**	262,624	359.9
Financial expenses, net	(363,778)	(332,830)	30,948	9.3
Other non-operating income, net	5,645	3,257	2,388	73.3
Loss before income tax	(22,529)	(256,593)	(234,064)	(91.2)
Income tax credit (expense)	33,843	(5,420)	39,263	n.m.(1)
Net Income (loss)	**11,314**	**(262,013)**	273,327	104.3

(1) Not meaningful.

Net Revenues

Our net revenues increased by 10.5%, from COP$4,200,775 million in 2013 to COP$4,639,999 million in 2014, primarily due to a 19.6%, or COP$477,539 million, increase in our revenues from mobile services, from COP$2,430,750 million in 2013 to COP$2,908,289 million in 2014, which was partially offset by a 2.2%, or

COP$38,315 million, decrease in our revenues from fixed-line services from COP$1,770,025 million in 2013 to COP$1,731,710 million 2014.

The 19.6% increase in our revenues from mobile services was mainly a result of:

(i) a 45.7%, or COP$210,668 million, increase in our revenues from data transmission services (connectivity) from COP$460,966 million in 2013 to COP$671,634 million in 2014, primarily as a result of:

- a 32.7%, or COP$146,418 million, increase in basic charges for data transmission from COP$447,257 million in 2013 to COP$593,675 million in 2014, primarily due to a 5.2% increase of mobile data subscribers (mobile services including data packages) from 734,985 in 2013 to 772,893 in 2014; and

- a COP$64,250 million increase in our revenues from services provided to the MVNO Virgin Mobile from COP$13,709 million in 2013 to COP$77,959 million in 2014;

(ii) a 14.4%, or COP$218,654 million, increase in our revenues from basic charges for mobile voice and airtime from COP$1,517,901 million in 2013 to COP$1,736,555 million in 2014, mainly as a result of:

- a COP$270,252 million increase in total mobile interconnection revenues due to a change in a recording methodology for mobile-to-mobile interconnection. During 2013 mobile-to-mobile interconnection revenues were recorded under cost of interconnection; however, beginning in January 1, 2014, mobile-to-mobile interconnection revenues were recorded as revenue separately from the cost of interconnection. Excluding the effect of the change in recording methodology, our total mobile interconnection revenues increased by 21.4%, from COP$285,753 million in 2013 to COP$346,777 million in 2014, as a result of in an increase of COP$89,006 million in our mobile-to-mobile interconnection revenues, from COP$209,228 million in 2013 to COP$298,234 million in 2014;

(iii) a 16.7%, or COP$43,146 million, increase in our revenues from the sales of handsets from COP$257,895 million in 2013 to COP$301,041 million in 2014, mainly as a result of:

- an increase in demand for equipment that supports data services, as evidenced by a 3.7% increase in sales of smartphones from 804,484 smartphones in 2013 to 833,993 smartphones in 2014; and

- an increase in the average price of mobile phones due to elimination of handset subsidies as a result of the prohibition to include minimum stay clauses in postpaid mobile services contracts as of July 1, 2014. In 2014, the average sale price of handsets for postpaid plans increased by 82.9%, from COP166,397 in 2013 to COP$304,317 in 2014;

(iv) a 1.7%, or COP$2,808 million increase in other value added services, from COP$161,577 million in 2013 to COP$164,385 million in 2014, including downloaded content and applications as well as other valued added services; and

(v) a 7.0%, or COP$2,262 million, increase in other income, from COP$32,412 million in 2013 to COP$34,674 million in 2014, primarily due to expired recharges of prepaid cards and link rentals.

Our mobile subscribers (including voice and data packages) increased by 5.9% from 12,121,734 subscribers in 2013 to 12,842,498 subscribers in 2014, of which 3,259,885 subscribers were post-paid and 9,582,614 subscribers were pre-paid. Our ARPU for mobile services decreased from COP$17,224 in 2013 to COP$17,166 in 2014.

The 2.2% decrease in our revenues from fixed-line services was mainly as a result of:

(i) a 19.7%, or COP$108,548 million, decrease in our revenues from local telephone services from COP$550,419 million in 2013 to COP$441,871 million in 2014, primarily as a result of the elimination of recognition of revenues from our use of our own telephone services (*auto-consumo*) in 2014, which during 2013 totaled COP$99,377 million (an equal amount was recorded as cost of interconnection to offset the impact on our EBITDA). Excluding the effect of the elimination of revenues from our use of our own telephone services (*auto-consumo*), our revenue from local telephone services decreased slightly by 2.0%, or COP$9,171 million, from COP$451,042 million in 2013 to COP$441,871 million in 2014, primarily due to a 3.9% decrease in ARPU, from COP$31,784 in 2013 to COP$30,546 in 2014, which was partially offset by a 1.0% increase in our fixed-line subscribers from 1,447,059 in 2013 to 1,461,031 in 2014;

(ii) a 6.7%, or COP$16,679 million, decrease in our revenues from domestic and international long distance from COP$249,269 million in 2013 to COP$232,590 million in 2014, mainly as a result of a 15.0% decrease in traffic from 952 million minutes in 2013 to 809 million minutes during 2014, mainly due to increased use of data applications, such as Skype and Viber, which are designed to replace traditional international voice calls; and

(iii) a 17.1%, or COP$9,687 million, decrease in our revenues from sales of telecommunication equipment from COP$56,677 million in 2013 to COP$46,990 million in 2014.

These decreases in our revenues from fixed-line services were partially offset by:

(i) a 36.4%, or COP$43,269 million, increase in our revenues from subscription television services from COP$118,748 million in 2013 to COP$162,017 million in 2014, mainly due to:

- a 19.7% increase in the number of TV subscribers from 347,636 subscribers in 2013 to 415,977 subscribers in 2014; and

- a 9.3% increase in our ARPU for subscription television services from COP$31,383 in 2013 to COP$34,304 in 2014, as a result of the sale of premium TV packages and an increase in HDTV subscribers;

(ii) a 7.6%, or COP$30,553 million, increase in our revenues from broadband Internet from COP$404,540 million in 2013 to COP$435,093 million in 2014, mainly due to a 12.7% increase in Internet subscribers from 850,927 Internet subscribers in 2013 to 959,175 Internet subscribers in 2014, which was partially offset by a 9.4% decrease in our ARPU for broadband Internet from COP$37,799 in 2013 to COP$34,255 in 2014, as a result of increased competition; and

(iii) a 9.9%, or COP$23,730 million, increase in our revenues from data transmission from COP$239,923 million in 2013 to COP$263,653 million during the corresponding period in 2014, mainly as a result of renewed contracts with customers in the financial, government and services sectors resulting in the growth of our network.

Cost of Sales and Services

Our cost of sales and services increased by10.7%, or COP$179,930 million, from COP$1,688,290 million in 2013 to COP$1,868,220 million in 2014, primarily due to:

(i) a 88.6%, or COP$172,146 million, increase in our cost of domestic interconnection charges from COP$194,216 million for in 2013 to COP$366,362 million in 2014, mainly attributable to a change in the recording methodology for mobile-to-mobile interconnection pursuant to Resolution 524. During 2013 mobile-to-mobile interconnection revenues were recorded under cost of interconnection, while in 2014 mobile-to-mobile interconnection revenues were recorded separately under our revenues from basic charges and airtime for mobile services;

(ii) a 22.1%, or COP$11,061 million, increase in our service orders and contracts for other services from COP$50,087 million in 2013 to COP$61,148 million in 2014, mainly due to:

- a 78.0%, or COP$4,160 million, increase in our equipment installation services, from COP$5,335million in 2013 to COP$9,495 million in 2014;

- a COP$3,280 million increase in other services provided from COP$1,601 million in 2013 to COP$4,881 million in 2014, mainly due to set-up expenses for Project Liceo, a M2M service;

- a 78.4%, or COP$2,819 million, increase in storage services, from COP$3,594 million in 2013 to COP$6,413 million in 2014; and

- a 16.8%, or COP$2,683 million, increase in maintenance and support services for information applications, from COP$15,967 million in 2013 to COP$18,650 million for the same period in 2014;

(iii) a 11.6%, or COP$20,854 million, increase in our maintenance and repair agreements from COP$180,160 million in 2013 to COP$201,014 million in 2014, mainly attributable to:

- a 20.1%, or COP$11,541 million, increase in our maintenance of last-mile connections caused by an increase in the number of users, from COP$57,551 million in 2013 to COP$69,092 million in 2014; and

- a COP$7,400 million increase in network technical support, from COP$2,489 million in 2013 to COP$9,889 million in 2014; and

(iv) a 2.9%, or COP$11,098 million, increase in our cost of sales of handsets and accessories from COP$378,393 million in 2013 to COP$389,491 million in 2014, primarily as a result of customers preferences resulting in increased sales of smartphones.

These increases in our costs of sales and services were partially offset by a 18.5%, or COP$25,752 million, decrease in added value services for use of platforms from COP$138,837 million in 2013 to COP$113,085 million in 2014, primarily as a result of our customers' preference to use data services for application downloads and sending premium messages, resulting in a decrease in users' content consumption.

PARAPAT Payment Obligations

Our PARAPAT Payment Obligations increased by 97.0%, from COP$148,463 million in 2013 to COP$292,452 million in 2014, primarily as a result of the 85.8% increase of the fixed component of our PARAPAT Payment Obligation as set forth in the PARAPAT Agreement from COP$139,353 million to COP$258,925 million, in addition to IPC adjustment and 4% on a compound basis for each of the two years between 2012 and 2014.

Operating Expenses

Our operating expenses increased by 1.5%, from COP$1,074,108 million in 2013 to COP$1,089,955 million in 2014, mainly as a result of:

(i) a 3.2%, or COP$11,860 million, increase in our administrative expenses from COP$366,757 million in 2013 to COP$378,617 million in 2014, primarily as a result of the following:

- a 3.2%, or COP$2,059 million, increase in our taxes, contributions and tariffs from COP$64,588 million in 2013 to COP$66,647 million in 2014;

- an 18.5%, or COP$6,803 million, increase in our maintenance and repair expenses from COP$36,687 million in 2013 to COP$43,490 million in 2014; and

- a 9.4%, or COP$8,772 million, increase in our personnel expenses from COP$93,490 million in 2013 to COP$102,262 million in 2014;

the effects of which were partially offset by, a 5.9%, or COP$6,919 million, decrease in our utility expenses from COP$117,431 million in 2013 to COP$110,512 million in 2014; and

(ii) a 21.7%, or COP$14,207 million, increase in our provisions from COP$65,583 million in 2013 to COP$79,790 million in 2014, mainly as a result of a 17.9%, or COP$11,684 million, increase in our allowance for doubtful accounts attributable to an increase in revenues and an expense in the provision of retail customers (resold of minutes).

These increases were partially offset by a 1.6%, or COP$10,220 million, decrease in our selling expenses from COP$641,768 million in 2013 to COP$631,548 million in 2014, as a result of a 8.6%, or COP$17,740 million, decrease in commissions from COP$205,797 million in 2013 to COP$188,057 million in 2014, attributable to the elimination of unlimited mobile contracts as of July 2014, which lead to a decrease in commercial activity during the second half of the year and a corresponding decrease in sales commission.

Depreciation and Amortization

Our depreciation and amortization decreased by 13.4%, from COP$1,216,934 million in 2013 to COP$1,053,768 million in 2014, as a result of a 46.0%, or COP$132,581 million, decrease in our amortization of intangibles from COP$287,969 million in 2013 to COP$155,388 million in 2014.

This decrease was attributable to:

(i) a 46.0% decrease in the amortization of our mobile concessions from COP$218,109 million in 2013 to COP$ 117,742 million in 2014, as a result of:

- the complete amortization of our mobile concessions in March of 2014 (amortized monthly in the amount of COP$17,248 million);
- the commencement of amortization of the renewal of our mobile services permits (amortized monthly in the amount of COP$2,388 million); and
- the commencement of amortization of the 4G LTE license (amortized monthly in the amount of COP$2,242 million) in December 2013; and

(ii) the completion of the amortization in March 2014 of goodwill related to the acquisition of Cocelco in 2000 (amortized monthly in the amount of COP$3,181 million).

Financial Expenses, Net

Our financial expenses, net increased by 9.3%, from COP$332,830 million in 2013 to COP$363,778 million in 2014, mainly as a result of (i) a 7.8%, or COP$26,992 million, increase in our financial expenses from COP$346,407 million in 2013 to COP$373,399 million in 2014, and (ii) a 29.1%, or COP$3,956 million, decrease in our financial income from COP$13,577 million in 2013 to COP$9,621 million in 2014.

The 7.8% increase in our financial expenses was mainly attributable to:

(i) a 7.7%, or COP$19,749 million, increase in our bank charges and other interest expense with bank loans from COP$255,391 million in 2013 to COP$275,140 million in 2014, as a result of COP$522,698 million increase in new indebtedness in 2014;

(ii) a COP$6,721 million increase in other financial expenses, from COP$1,080 million in 2013 to COP$7,801 million in 2014, mainly due to adjustments for inflation to long-term accounts payable related to radio spectrum licenses; and

(iii) a 4.5%, or COP$3,686 million, increase in interest hedge operations, from COP$82,265 million in 2013 to COP$85,951 million in 2014.

These increases were partially offset by a COP$3,643 million of default interest expense on our past-due PARAPAT Payment Obligations and related fees in 2012 recorded in 2013, while no such expense was recorded in 2014.

Other Non-Operating Income, net

Our other non-operating income, net increased by 73.3%, from COP$3,257million in 2013 to COP$5,645 million in 2014, primarily as a result of:

(i) a 23.2%, or COP$5,451 million, increase of recoveries of costs and expenses related to penalty fees for commercial agents and provisions for accounts receivable, payroll expenses and inventories from COP$23,470 million in 2013 to COP$28,921 million in 2014; and

(ii) a 463.2%, or COP$16,211 million, increase of insurance compensation from COP$3,500 million in 2013 to COP$19,711 million in 2014.

These increases were partially offset by an increase of 137.3%, or COP$21,040 million, in provisions for litigation, penalties and contingencies from COP$15,323 million in 2013 to COP$36,363 million in 2014.

Income Tax Credit (Expense)

We recorded an income tax recovery of COP$33,843 million in 2014, compared to an income tax expense of COP$5,420 million in 2013, mainly as a result of:

(i) our ability to use a COP$24,457 million of our accumulated tax losses to offset our income tax expense for the period in that amount; and

(ii) our recognition of deferred taxes in an amount of COP$42,780 million.

We generated a profit for tax purposes of COP$97,828 million with respect to the year ended December 31, 2014, which allowed us to use a portion of our accumulated tax losses to offset our income tax expense for the period and to recognize deferred taxes, as described above.

Our CREE tax expense increased by 62.4%, from COP$5,420 million in 2013 to COP$8,805 million in 2014, as result of a change in the basis for calculating the CREE tax, from using our presumptive income in 2013 (COP$2,007,538 million) to our profit for tax purposes in 2014 (COP$97,828 million).

Net Income (Loss)

As a result of the foregoing factors, we recorded a net loss of COP$262,013 million in 2013 compared to net income of COP$11,314 million in 2014.

For the Years Ended December 31, 2013 and 2012

In this section we present certain information regarding our financial and operating results for the fiscal years ended December 31, 2013 and 2012. This information should be read in conjunction with, and is qualified in its entirety by reference to, our audited financial statements included elsewhere in this offering memorandum.

The following table sets forth the principal components of our net income for the years ended December 31, 2013 and 2012:

	For the year ended December 31,		Variation	
	2013	2012	Amount	Percentage
	(in millions of pesos*)*			*(%)*
Net revenues	4,200,775	3,998,868	201,907	5.0
Cost of sales and services	(1,688,290)	(1,629,638)	58,652	3.6
Gross profit before PARAPAT Payment Obligations	**2,512,485**	**2,369,230**	**143,255**	**6.0**
PARAPAT Payment Obligations	(148,463)	(131,389)	17,075	**13.0**
Gross profit	**2,364,022**	**2,237,841**	**126,180**	**5.6**
Administrative expenses	(366,757)	(361,856)	4,901	1.4
Provisions	(65,583)	(72,545)	(6,962)	(9.6)
Selling expenses	(641,768)	(589,058)	52,710	8.9
Operating expenses	**(1,074,108)**	**(1,023,459)**	**50,649**	**4.9**
Operating income (loss) before depreciation and amortization	**1,289,914**	**1,214,382**	**75,532**	**6.2**
Depreciation of property, plant and equipment	(644,553)	(592,787)	51,766	8.7
Amortization of intangibles	(287,969)	(284,593)	3,376	1.2
Amortization of deferred charges	(284,412)	(258,721)	25,691	9.9
Depreciation and amortization	**(1,216,934)**	**(1,136,101)**	**80,833**	**7.1**
Operating income (loss)	**72,980**	**78,281**	**(5,301)**	**(6.8)**
Financial expenses, net	(332,830)	(370,191)	(37,361)	(10.1)
Other non-operating income, net	3,257	11,619	(8,362)	(72.0)
Loss before income tax	(256,593)	(280,291)	(23,699)	(8.5)
Income tax expense	(5,420)	(277)	5,143	n.m.(1)
Net loss	**(262,013)**	**(280,568)**	**(18,555)**	**(6.6)**

(1) Not meaningful.

Net Revenues

Our net revenues increased by 5.0%, or COP$201,907 million, from COP$3,998,868 million in 2012 to COP$4,200,775 million 2013, primarily due to (i) a 7.6%, or COP$171,147 million, increase in our revenues from mobile services, from COP$2,259,603 million in 2012 to COP$2,430,750 million in 2013, and (ii) a 1.8%, or COP $30,761 million, increase in our revenues from fixed-line services, from COP$1,739,264 million in 2012 to COP$1,770,025 million in 2013.

The 7.6% increase in our revenues from mobile services was mainly a result of:

(i) a 21.1%, or COP$77,823 million increase in revenues from data services and transmission (connectivity), from COP$369,379 million in 2012 to COP$447,202 million in 2013, primarily as a result of an increase in customer demand for mobile data services, as a result of an increase in the penetration of smartphones, from 9.7% in 2012 to 23.3% in 2013;

(ii) a 5.0%, or COP$72,806 million, increase in revenues from basic charges and time on air from COP$1,462,529 million in 2012 to COP$1,535,335 million in 2013, mainly as a result of a 5.2%, or COP$55,340 million, increase in monthly fees from COP$1,016,582 million in 2012 to COP$1,071,922 million in 2013, which was partially due to an increase in inflation of the price of subscription plans; and

(iii) a 9.4%, or COP$22,140 million, increase in the sale of handsets and accessories, due to a higher demand for equipment that supports data services, such as smartphones and related accessories, from COP$235,755 million in 2012 to COP$257,895 million in 2013.

This increase was partially offset by an 18.3%, or COP$7,260 million, decrease in our revenues from other income from mobile telecommunications services, from COP$39,726 million in 2012 to COP$32,466 million in 2013, mainly due to a 24.0%, or COP$6,712 million, decrease in non-recurrent revenues associated with commercial activities, from COP$28,019 million in 2012 to COP$21,307 million in 2013.

Our mobile subscribers increased by 3.6%, or 418,102 subscribers, from 11,703,632 subscribers in 2012 to 12,121,734 subscribers in 2013, of which 3,303,208 subscribers were post-paid and 8,818,526 subscribers were pre-paid. Our APRU for mobile services increased from COP$17,083 in 2012 to COP$17,224 in 2013.

The 1.8% increase in our revenues from fixed-line services was mainly a result of:

(i) a 34.7%, or COP$30,602 million, increase in revenue from subscription television services from COP$88,146 million in 2012 to COP$118,748 million in 2013, mainly due to:

- a 12.1% increase in trio bundling packages, from 185,363 trio bundling packages in 2012 to 207,736 trio bundling packages in 2013;

- a 22.1% increase in number of subscription television subscribers, from 284,805 subscription television subscribers in 2012 to 347,636 subscription television subscribers in 2013; and

- a 12.8% increase in our ARPU for subscription television services, from COP$27,818 million in 2012 to COP$31,383 million in 2013;

(ii) a 5.6%, or COP$21,521 million, increase in revenues from broadband Internet, from COP$383,019 million in 2012 to COP$404,540 million in 2013, mainly due to a 21.0% increase in Internet subscribers, from 703,312 subscribers in 2012 to 850,927 subscribers in 2013, which was partially offset by a 13.5% decrease in our ARPU from Internet subscribers, from COP$43,689 in 2012 to COP$37,799 in 2013; and

(iii) a 20.9%, or COP$9,814 million, increase in our wholesale and retail sales of equipment, including personal computers and phones, from COP$46,863 million in 2012 to COP$56,677 million in 2013.

This increase was partially offset by:

(i) a 5.5%, or COP$31,818 million decrease in local telephone services, from COP$582,237 million in 2012 to COP$550,419 million in 2013; and

(ii) a 35.7%, or COP$4,541 million, decrease in government grants received as a result of telecommunications projects financed through the Second and Third Biannual Investment Program, which are a government-funded projects seeking to expand fixed networks in unprofitable regions, from COP$12,707 million in 2012 to COP$8,166 million in 2013.

Cost of Sales and Services

Our cost of sales and services increased by 3.6%, from COP$1,629,638 million in 2012 to COP$1,688,290 million in 2013, primarily as a result of:

(i) an 18.8%, or COP$59,859 million, increase in cost of sales of mobile equipment and accessories, from COP$318,534 million in 2012 to COP$378,393 million in 2013, due to a 69.3% increase in demand for smartphones, from 475,214 in 2012 to 804,484 in 2013;

(ii) a 26.4%, or COP$33,853 million, increase in compensation payments to the FTIC pursuant to Resolution 290 of 2010, which are related to general power usage and calculated at a rate of 2.2% of gross income, from COP$128,158 million in 2012 to COP$162,011 million in 2013, due to an increase in revenues received from telecommunication services; and

(iii) a 19.5%, or COP$14,191 million, increase in cost of sales of other equipment from COP$72,759 million in 2012 to COP$86,950 million in 2013, primarily as a result of a COP$9,978 million increase in sales of personal computers.

This increase was partially offset by:

(i) a 22.1%, or COP$55,202 million, decrease in mobile-to-mobile and fixed-to-mobile interconnection with domestic operators, from COP$249,418 million in 2012 to COP$194,216 million in 2013, as a result of the implementation of asymmetric charges pursuant to Resolution 4022 of 2012 and Resolution 4050 of 2012. See "Business—Interconnection;" and

(ii) a 7.3%, or COP$14,089 million, decrease in maintenance and repair, from COP$194,249 million in 2012 to COP$180,160 million in 2013 as a result of an 82.0%, or COP$11,299 million decrease in maintenance of telecommunication equipment, from COP$13,836 million in 2012 to COP$2,537 million in 2013.

PARAPAT Payment Obligations

Our PARAPAT Payment Obligations increased by 13.0%, from COP$131,389 million in 2012 to COP$148,463 million in 2013 as set forth in the PARAPAT Agreement.

Operating Expenses

Our operating expenses increased by 4.9%, or COP$50,649 million, from COP$1,023,459 million in 2012 to COP$1,074,108 million in 2013, due to the following:

(i) our administrative expenses increased by 1.4%, or COP$4,901 million, from COP$361,856 million in 2012 to COP$366,757 million, primarily as a result of:

- a 13.1%, or COP$13,639 million, increase in utilities, from COP$103,792 million in 2012 to COP$117,431 million in 2013;

- a 95.1%, or COP$8.845 million, decrease in legal fees, from COP$9,301 million in 2012, to COP$456 million in 2013, primarily resulting from legal fees related to our merger with TEMCO in June 2012; and

- a 28.7%, or COP$4,064 million, decrease in miscellaneous fees, including among others stationery and office supplies, printing, general services, from COP$14,154 million in 2012 to COP$10,090 million in 2013, as the result of TEMCO Merger; and

(ii) our selling expenses increased by 8.9%, or COP$52,710 million, from COP$589,058 million in 2012 to COP$641,768 million in 2013, primarily as a result of a 17.3%, or COP$30,314 million, increase in sales commissions, from COP$175,483 million in 2012 to COP$205,797 million, related to an increase in subscribers to our subscription television, fixed-line broadband, mobile and fixed-line services, and a 7.6%, or COP$9,170 million increase in advertising expenses, from COP$120,669 million in 2012 to COP$129,839 million in 2013 as a consequence of increased commercial activity.

These increases were partially offset by a 9.6%, or COP$6,962 million decrease in our provisions, from COP$72,545 million in 2012 to COP$65,583 million in 2013, primarily as a result of an 8.8%, or COP$6,304 million, decrease in our provisions for doubtful accounts mainly explained by commercial debtors

Depreciation and Amortization

Our depreciation and amortization increased by 7.1%, from COP$1,136,101 million in 2012 to COP$1,216,934 million in 2013, primarily due to the following:

(i) our depreciation of property, plant and equipment increased by 8.7%, or COP$51,765 million, from COP$592,787 million for 2012 to COP$644,553 million for 2013, as a result of COP$733,971 million in purchases of telecommunication equipment for the expansion our 3G network and 4G network deployment; and

(ii) our amortization of deferred charges increased by 9.9%, or COP$25,691 million, from COP$258,721 million in 2012 to COP$284,412 million in 2013, primarily as a result of software amortization.

Financial Expenses, Net

Our financial expenses, net decreased by 10.1%, or COP$37,361 million, from COP$370,191 million in 2012 to COP$332,830 million in 2013, mainly due to a 93.7%, or COP$54,147 million, decrease in late interest payments on our past-due PARAPAT Obligations, from COP$57,790 million in 2012 to COP$3,643 million in 2013, which was partially offset by (i) a 2.8%, or COP$6,886 million increase in expenses related to banks charges and other interests, from COP$248,505 million in 2012 to COP$255,391 million in 2013 and (ii) a 3.8%, or COP$5,396 million increase in expenses related to interest hedge operations (net) from COP$76,869 million in 2012 to COP$82,265 million in 2013, primarily due to increased indebtedness and exposure of commercial accounts for with carry-forward balances.

Other Non-Operating Income, net

Our other non-operating income, net decreased by 72.0%, or COP$8,362 million, from COP$11,619 million in 2012 to COP$3,257 million in 2013, as a result of:

(i) a 26.5%, or COP$16,886 million, decrease on other non-operating revenues in 2013 as compared to 2012, mainly as a result of non-operating revenues recorded in 2012, including:

- COP$9,836 million in taxes assumed in previous years,
- COP$5,129 million corresponding to the reversal in 2012 of a portion of the provision for vertical projects recorded as an expense in 2011, and
- COP$3,221 million corresponding to the reversal in 2012 of a portion of the provision for management fees recorded as an expense in 2011, see "Related Party Transactions;"

(ii) a 16.3%, or 8,524 million, decrease on other non-operating expenses mainly explained by:

- a11.6% decrease in assumed taxes from COP$19,780 million in 2012 to COP$17,484 million in 2013; and
- a 63.4%, or COP$5,778 million, decrease in other expenses from COP$9,109 million in 2012 to COP$3,331 million in 2013.

Income Tax Expense

Our income tax expense increased by COP$5,144 million, from COP$277 million in 2012 to COP$5,420 million in 2013, due to the accrual of the CREE tax in the amount of COP$5,420 million in 2013, which was calculated based on our presumptive income. The CREE tax was created by Law 1607 of 2012 in December 2012 and became effective in 2013. In 2012 we recorded a windfall tax of COP$277 million, resulting from the sale of assets in 2012 in an aggregate amount of COP$3,438 million. In 2012 and 2013 we were not subject to the standard corporate income tax, as a result of our status as a public utilities company. See "—Critical Accounting Policies and Estimates—Income Tax and Wealth Tax" and "—Factors Affecting Our Operating Results—Effects of our Status as an *Empresa de Servicios Públicos*."

Net Loss

As a result of the foregoing factors, our net loss decreased 6.6%, or COP $18,555 million, from COP$280,568 million in 2012 to COP$262,013 million in 2013.

Liquidity and Capital Resources

Our financial condition is and will continue to be influenced by a variety of factors, including:

- our ability to generate cash flows from our operations;
- the level of our outstanding indebtedness and the interest we are obligated to pay on this indebtedness;
- our PARAPAT Payment Obligations;
- our capital expenditure requirements; and
- changes in exchange rates which will impact the interest in Colombian *pesos* we are obligated to pay on our foreign-denominated indebtedness.

We expect our principal cash requirements to be:

- working capital requirements;
- capital expenditures related to investments in operations, expansion of our networks and enhancements of the technical capabilities and capacity of our networks;
- servicing of our indebtedness; and
- our PARAPAT Payment Obligations.

Historically we have relied primarily on short-term and long-term loans; sales of debt securities in the domestic capital market, and more recently in international capital markets; equipment financing by suppliers; and cash from operations to fund our operations. We expect our principal sources of liquidity to continue to be:

- short-term and long-term loans;
- equipment financing by suppliers;
- sales of debt and equity securities in domestic and international capital markets; and
- cash flows from operating activities.

Working Capital

We finance our working capital through cash generated by our operations, accounts receivables, and financings from financial institutions under currently available uncommitted credit limit approvals.

As of December 31, 2014, we had COP$80,526 million in cash and cash equivalents and temporary investments. As of the same date, our working capital, defined as the difference between current assets and current liabilities, was negative COP$815,520 million, primarily consisting of (i) short-term debt obligations of COP$352,278 million, and (ii) accounts payable and provisions of COP$966,783 million and COP$282,007 million, respectively, corresponding to suppliers of goods and services.

As of December 31, 2013, we had COP$143,813million in cash and cash equivalents and temporary investments. As of the same date, our working capital was negative COP$1,123,436 million, primarily consisting of (i) short-term debt obligations of COP$373,278 million, and (ii) accounts payable and provisions of COP$1,005,775 million and COP$380,516 million, respectively, corresponding to suppliers of goods and services.

As of December 31, 2012, we had COP$156,601 million in cash and cash equivalents and temporary investments. As of the same date, our working capital was negative COP$896,743million, primarily consisting of (i) short-term debt obligations of COP$59,043 million, and (ii) accounts payable and provisions of COP$1,182,749 million and COP$269,228 million, respectively, corresponding to domestic suppliers of goods and services.

Projected Sources and Uses of Cash

We anticipate that we will spend COP$929,500 million in 2015, COP$850,735 million in 2016 and COP$850,000 million in 2017 to meet our budgeted capital expenditures. Our actual capital expenditures may exceed or fall short of the budgeted amounts set forth above, both in terms of the aggregate capital expenditures we incur and the years in which we incur them.

We expect that we will meet these cash requirements for (i) our operating and maintenance activities through sales of our services, and (ii) our debt service and capital expenditure commitments through a combination of cash generated from operating activities and cash generated by financing activities, including new debt financings.

Cash Flows

The following table sets forth our cash flows for the periods indicated:

	For the year ended December 31,		
	2014	**2013**	**2012**
		(*in millions of* pesos)	
Net cash provided by operating activities	1,059,149	872,539	570,352
Net cash used in investing activities	(1,348,981)	(1,119,367)	(807,829)
Net cash provided by financing activities	210,266	246,112	156,083
Net decrease in cash and cash equivalents	**(79,566)**	**(717)**	**(81,394)**
Cash and cash equivalents at the beginning of the year	135,657	136,373	75,034
Cash and cash equivalents at the end of the year	56,091	135,657	136,373

Cash Flows from Operating Activities

Our net cash provided by operating activities was COP$1,059,149 million in 2014, compared to COP$872,539 million provided in 2013. The COP$186,610 million increase in cash provided by operating activities was primarily attributable to:

(i) a COP$273,327 million variation in our net results, from a net loss of COP$262,013 million in 2013 to net income of COP$11,314 million in 2014;

(ii) a COP$120,996 million increase in cash after adjustments for non-cash-items, from COP$1,305,824 million in 2013, to COP$1,426,820 million in 2014, mainly as a result of

- a COP$302,789 million increase in our valuation of derivatives and exchange difference, from COP$16,206 million in 2013 to COP$318,995 million in 2014,

- a 46.0% decrease in our amortization of intangibles, from COP$287,969 million in 2013 to COP$155,388 million in 2014, and,

- our recognition of COP$42,780 million as deferred income taxes in 2014.

(iii) a COP$207,714 million increase in net changes of operating assets and liabilities, from COP$171,272 million in 2013, to COP$378,986 million in 2014, mainly attributable to:

- a COP$150,671 million increase in gross accounts receivable from COP$73,961 million in 2013 to COP$224,632 million in 2014, primarily as a result of the 10.5% increase in our net revenues in 2014, as compared to 2013; and

- a COP$41,938 million increase in operating liabilities (accounts payable, taxes, levies and rates, labor liabilities, estimated liabilities and provisions, deferred liabilities and other liabilities), from COP$83,798 million in 2013 to COP$125,736 million in 2014, primarily due to a COP$229,805 million variation in estimated liabilities and provisions, from cash provided of COP$150,991million in 2013 to cash used of COP$78,814 million in 2014, and a COP$137,982 million variation in suppliers and accounts payable, from cash used of COP$176,974 million in 2013 to cash used of COP$38,992 million in 2014, mainly attributable to a COP$254,791 million in payments made to PARAPAT Payment Obligations in 2013 corresponding to past due obligations from 2011.

Our net cash provided by operating activities was COP$872,539 million in 2013, compared to COP$570,352 million in 2012. The COP$302,187 million increase was primarily attributable to:

(i) a COP$18,555 million decrease in our net loss, from COP$280,568 million in 2012 to COP$262,013 million in 2013.

(ii) a COP$120,810 million increase in cash after adjustments for non-cash items, from COP$1,185,014 million in 2012 to COP$1, 305,824 million in 2013, including depreciation property, plant and equipment and amortization of deferred charges, and

(iii) a COP$162,822 million decrease in net changes of operating assets and liabilities, to COP$171,272 million in 2013, as compared to COP$334,094 million in 2012 mainly attributable to

- a COP$73,961 million net increase in gross accounts receivable for 2013, primarily as a result of the 5.0% increase in our net revenues in 2013, as compared to 2012; and

- a COP$429,858 million decrease in operating liabilities (accounts payable, taxes, levies and rates, labor liabilities, estimated liabilities and provisions, deferred liabilities and other liabilities), to COP$83,798 million in 2013, as compared to COP$513,656 million in 2012, primarily due to a significant amount of capital expenditures accrued during the last quarter of 2012 and COP$277,922 million in payments made to PARAPAT in 2012 corresponding to past-due PARAPAT Payment Obligations from 2011.

Cash Flows Used in Investing Activities

Our net cash used in investing activities was COP$1,348,981 million in 2014, compared to COP$1,119,367 million used in 2013. The COP$229,614 million increase was primarily attributable to:

(i) a COP$200,116 million increase in acquisition of property, plant and equipment, from COP$625,495 million in 2013, as compared to COP$825,611 million in 2014, mainly as a result of investments in 3G and 4G technology, and

(ii) a COP$24,944 million increase in addition of non-current prepaid expenses in 2014.

Our net cash used in investing activities was COP$1,119,367 million in 2013, compared to COP$807,829 million used in 2012. The COP$311,538 million increase was primarily attributable to:

(i) a COP$352,149 million increase in addition of deferred charges and acquisition of intangibles mainly as a result of a COP$268,997 million payment in connection with the award of our 4G license, and

(ii) a COP$31,681 million decrease from the acquisition of plant, property and equipment, to COP$625,495 million in 2013, as compared to COP$657,176 million in 2012.

Cash Flows Provided by Financing Activities

Our net cash provided by financing activities was COP$ 210,266 million in 2014, compared to COP$246,112 million provided in 2013. The COP$35,846, million decrease was primarily attributable to a COP$150,000 million increase in borrowings in 2014 to pay for the renewal of our mobile services licenses. In 2014, we incurred COP$522,698 million of new indebtedness and repaid COP$446,357 million, compared to COP$328,939 million incurred and COP$84,339 million repaid in 2013.

Our net cash provided by financing activities was COP$246,112 million in 2013, compared to COP$156,083 million provided in 2012. The COP$90,029 million increase was primarily attributable to an increase in indebtedness. During 2013, we incurred COP$328,939 million of new indebtedness from which COP$211,951 million corresponds to a loan agreement with Banco Itaú BBA S.A., Nassau Branch, or Itaú, and COP$116,988 million to short-tern indebtedness from financial institutions in Colombia, and repaid COP$84,339 million, of which COP$64,339 million corresponds to the loan agreements with the European Investment Bank, or EIB, and COP$20,000 million corresponds to the loan agreements with Banco Agrario de Colombia S.A., or Banco Agrario.

During 2012, we incurred COP$2,504,090 million of new indebtedness, primarily corresponding to (i) our U.S.$750 million (COP$1,326,173 million) 5.375% senior notes due 2022, (ii) a COP$587,427 million bridge loan disbursed on May 15, 2012, and (iii) COP$567,000 million, from working capital loans. In addition, during 2012, we repaid COP$2,256,904 million of indebtedness, primarily corresponding to (i) COP$1,660,209 million for the process of renegotiation of outstanding loans, and (ii) COP$596,695 million corresponding to the bridge loan disbursed on May 15, 2012.

Indebtedness

As of December 31, 2014, our total outstanding indebtedness (which corresponds to our financial obligations and bonds and securities) was COP$4,060,076 million, consisting of COP$352,278 million of short-term indebtedness, including the current portion of long-term indebtedness (or 8.7% of our total indebtedness), and COP$3,707,798 million of long-term indebtedness (or 91.3% of our total indebtedness). As of December 31, 2014, COP$2,265,731million (or 55.8%) of our total indebtedness corresponds to bank loans and COP$1,794,345 million (or 44.2%) to our U.S.$750 million 5.375% senior notes due 2022. Our *peso*-denominated indebtedness as of December 31, 2014 was COP$1,505,911 million (or 37.1% of our total indebtedness) and our U.S. dollar-denominated indebtedness was COP$2,554,166 million (or 62.9% of our total indebtedness). As of December 31, 2014, our *peso*-denominated indebtedness bore interest at an average rate of 7.17% per annum, and our U.S. dollar-denominated indebtedness bore interest at an average rate of 4.28% per annum. As of December 31, 2014, 51.0% of our total indebtedness bore interest at floating rates and 49.0% bore interest at fixed rates. Of our total indebtedness with floating interest rates, 34.3% was linked to DTF, 29.0% to IBR and 36.7% to LIBOR. Our cash interest expense was COP$366,417 million in 2014.

As of December 31, 2013, our total outstanding indebtedness was COP$3,485,980 million, consisting of COP$373,278 million of short-term indebtedness, including the current portion of long-term indebtedness (or 10.7% of our total indebtedness), and COP$3,112,702 million of long-term indebtedness (or 89.3% of our total indebtedness). As of December 31, 2013, COP$1,667,579 million (or 47.8%) of our total indebtedness corresponds to bank loans and COP$1,445,123 million (or 41.5%) of our total indebtedness to our U.S.$750 million 5.375% senior notes due 2022. Our peso-denominated indebtedness as of December 31, 2013 was COP$1,486,141 million (or 42.6% of our total indebtedness) and our foreign currency-denominated indebtedness was COP$1,999,839 million (or 57.4% of our total indebtedness). As of December 31, 2013, our *peso*-denominated indebtedness bore interest at an average rate of 7.62% per annum, and our U.S. dollar-denominated indebtedness bore interest at an average rate of 4.34% per annum. As of December 31, 2013, 54.2% of our debt bore interest at floating rates and 45.8% bore interest at fixed rates. Of our total indebtedness with floating interest rates, 70.6% of which was linked to DTF and 29.4% to LIBOR. Our cash interest expense was COP$332,809 million in 2013.

Short-term Indebtedness

Our short-term indebtedness, including the current portion of long-term indebtedness, was COP$352,278 million as of December 31, 2014. We maintain available credit limit approvals denominated in *pesos* with a number of financial institutions in Colombia, which we use to meet our working capital needs. As of the date of this offering memorandum, we had uncommitted credit limit approvals with Colombian financial institutions in an aggregate principal amount of COP$1,252,042 million. We believe that we will continue to be able to obtain sufficient credit to finance our working capital needs based on current market conditions and our liquidity position.

Long-term Indebtedness

Our total long-term indebtedness as of December 31, 2014, was COP$3,707,798 million, of which COP$1,359,036 million corresponds to *peso*-denominated indebtedness and COP$2,348,762 million corresponds to foreign currency-denominated indebtedness.

The following table sets forth selected information with respect to our principal outstanding long-term indebtedness as of December 31, 2014.

Debt	Maturity date	Payments of principal	Interest rate	Currency	Guarantor	As of December 31, 2014 Short-term portion	 Long-term portion	 Total debt
						(in millions of *pesos*)		
U.S.$126 .4 million – EIB								
Tranche A – U.S.$74.4 million	Mar 2019	Semi-annually	LIBOR+0.17%	U.S. Dollars	Santander	19,781	69,234	89,015
Tranche B – U.S.$19.9 million	Nov 2019	Semi-annually	LIBOR+0.19%	U.S. Dollars	Santander	5,003	20,013	25,016
Tranche C – U.S.$12.7 million	Dec 2019	Semi-annually	LIBOR+0.20%	U.S. Dollars	Santander	3,196	12,784	15,980
Tranche D – U.S.$19.4 million	Mar 2020	Semi-annually	LIBOR+0.21%	U.S. Dollars	Santander	4,883	21,973	26,856
U.S.$127.8 million – EIB								
Tranche A – U.S.$54.1 million	Sep 2017	Semi-annually	LIBOR+0.68%	U.S. Dollars	BCI	19,919	39,839	59,758
Tranche B – U.S.$22.6 million	Jun 2018	Semi-annually	LIBOR+0.60%	U.S. Dollars	BCI	8,301	20,752	29,052
Tranche C – U.S.$51.0 million	Nov 2018	Semi-annually	LIBOR+0.36%	U.S. Dollars	BCI	18,803	56,410	75,214
COP$214,002 million – Banco de Bogotá	Jun 2019	Quarterly	DTF+4.00%	*Pesos*	–	26,750	187,252	214,002
COP$70,199 million – Banco de Occidente	Jul 2019	Quarterly	DTF+4.00%	*Pesos*	–	3,450	51,749	55,199
COP$318,475 million – Banco Davivienda	Sep 2019	Quarterly	DTF+4.00%	*Pesos*	–	19,905	298,571	318,475
COP$600,000 million – Bancolombia	Dec 2019	Quarterly	IBR+4.00%	*Pesos*	–	–	600,000	600,000

Debt	Maturity date	Payments of principal	Interest rate	Currency	Guarantor	As of December 31, 2014		
						Short-term portion	Long-term portion	Total debt
						(in millions of *pesos*)		
COP$100,000 million – Banco Agrario	Jan 2020	Quarterly	DTF+3.00%	*Pesos*	–	–	100,000	100,000
COP$ 40,000 million – Banco Corpbanca	Apr 2020	Quarterly	7,21%	*Pesos*	–	–	40,000	40,000
COP$81,465 million – Helm Bank	Dec 2020	Quarterly	7.91% - 8.46%	*Pesos*	-	–	81,465	81,465
U.S.$110.0 million –Itaú	Mar 2016	At maturity	LIBOR+2.70%	U.S. Dollars	–	–	193,789	193,789
U.S.$50.0 million – Bladex	Mar 2016	Quarterly	LIBOR+2.00%	U.S. Dollars	–	–	119,623	119,623
U.S.$750.0 million - Senior Notes	Sep 2022	At maturity	5.375%	U.S. Dollars	–	–	1,794,345	1,794,345
Total						**129,992**	**3,707,798**	**3,837,790**

The following discussion briefly describes certain of our principal financing agreements as of December 31, 2014.

European Investment Bank Loan Agreement. On August 2, 2006, we (as successor by merger to TEMCO) entered into a loan agreement with EIB, for an aggregate principal amount of up to U.S.$126.4 million. Disbursements of U.S.$74.4 million (Tranche A), U.S.$19.9 million (Tranche B), U.S.$12.7 million (Tranche C) and U.S.$19.4 million (Tranche D) were made on March 1, 2007, November 15, 2007, December 20, 2007 and March 27, 2008, respectively. Tranche A bears interest at a rate of LIBOR *plus* 0.071% per annum payable in arrears semi-annually and matures on March 1, 2019. The principal amount of Tranche A is payable in semi-annual installments beginning in September 2010 through maturity. Tranche B bears interest at a rate of LIBOR *plus* 0.089% per annum payable in arrears semi-annually and matures on November 15, 2019. The principal amount of Tranche B is payable in semi-annual installments beginning in November 2010 through maturity. Tranche C bears interest at a rate of LIBOR *plus* 0.103% per annum payable in arrears semi-annually and matures on December 20, 2019. The principal amount of Tranche C is payable in semi-annual installments beginning in December 2010 through maturity. Tranche D bears interest at a rate of LIBOR *plus* 0.112 % per annum payable in arrears semi-annually and matures on March 27, 2020. The principal amount of Tranche D is payable in semi-annual installments beginning in March 2011 through maturity. Our payment obligations under this agreement are guaranteed by Banco Santander S.A., or Banco Santander. The proceeds from these loans were used to expand our GSM mobile network in Colombia. As of December 31, 2014, the outstanding principal amount under this loan agreement was COP$156,868 million (U.S.$65.6 million). As a result of the credit rating downgrade of the guarantor, Banco Santander, and in accordance with the terms and conditions of the loan agreement, on November 18, 2013, we and EIB agreed to increase the interest rate of Tranche A to 0.171%, of Tranche B to 0.189%, of Tranche C to 0.203% and Tranche D to 0.212%.

European Investment Bank Loan Agreement. On March 5, 2009, we (as successor by merger to TEMCO) entered into a loan agreement with EIB for an aggregate principal amount of up to U.S.$127.8 million. Disbursements of U.S.$54.1 million (Tranche A), U.S.$22.6 million (Tranche B) and U.S.$51.0 million (Tranche C) were made on September 14, 2009, June 9, 2010 and November 23, 2010, respectively. Tranche A bears interest at a rate of LIBOR *plus* 0.683% per annum payable in arrears semi-annually and matures on September 14, 2017. The principal amount of Tranche A is payable in semi-annual installments beginning in September 2011 through maturity. Tranche B bears interest at a rate of LIBOR *plus* 0.599% per annum payable in arrears semi-annually and matures on June 9, 2018. The principal amount of Tranche B is payable in semi-annual installments beginning in June 2012 through maturity. Tranche C bears interest at a rate of LIBOR *plus* 0.358% per annum payable in arrears semi-annually and matures on November 23, 2018. The principal amount of Tranche C is payable in semi-annual installments beginning in November 2012 through maturity. Our payment obligations under this agreement are guaranteed by Banco de Crédito e Inversiones, which replaced Banco Bilbao Vizcaya Argentaria S.A. on December 2013.The proceeds from these loans were used to expand our GSM mobile network and install a new 3G network in

Colombia. As of December 31, 2014, the outstanding principal amount under this loan agreement was COP$164,024 million (U.S.$68.6 million).

Banco de Bogotá Promissory Notes. On June 28, 2012, we and Banco de Bogotá S.A. renegotiated the terms of our outstanding loans in an aggregate principal amount of COP$214,002 million, to (i) extend the maturity of the loans then outstanding through June 28, 2019, (ii) increase the interest rate to DTF *plus* 4.00% per annum payable quarterly, and (iii) grant a three-year grace period for payment of principal, which is payable in quarterly installments beginning in September 2015 through maturity. The proceeds from this loan were used to repay certain of our indebtedness. As of December 31, 2014, the outstanding principal amount under this loan agreement was COP$214,002 million.

Banco de Occidente Promissory Note. On July 24, 2012, we entered into a loan with Banco de Occidente S.A., for an aggregate principal amount of COP$70,199 million disbursed on July 24, 2012. This loan bears interest at DTF *plus* 4.00%, per annum, payable quarterly through maturity on July 24, 2019. The proceeds from this loan were used to repay certain of our indebtedness. As of December 31, 2014, the outstanding principal amount under this loan agreement was COP$55,199 million.

Banco Davivienda Loan Agreement. On September 27, 2012, we and Banco Davivienda S.A. renegotiated the terms of our outstanding loans in an aggregate principal amount of COP$318,475 million, to (i) extend the maturity of the loans then outstanding through September 27, 2019, (ii) increase the interest rate to DTF *plus* 4.00% per annum payable quarterly, and (iii) grant a three-year grace period for payment of principal, which is payable in quarterly installments beginning in December 2015 through maturity. The proceeds from this loan were used to repay certain of our indebtedness. As of December31, 2014, the outstanding principal amount under this loan agreement was COP$318,475 million.

Bancolombia Loan Agreement. On December 29, 2014, we renegotiated the terms of our existing COP$600,000 million facility with Bancolombia S.A. and entered into a new loan agreement with that financial institution, for an aggregate principal amount of COP$600,000 million. This loan bears interest at IBR plus 4.00% per annum, payable quarterly, and matures on December 29, 2020. The principal amount of this loan is payable quarterly beginning in March 2016 through maturity. The proceeds from this loan were used to repay certain of our indebtedness. As of December 31, 2014, the outstanding principal amount under this loan agreement was COP$600,000 million.

Banco Agrario Promissory Note. On January 30, 2013, we entered into a loan with Banco Agrario, for an aggregate principal amount of COP$100,000 million, disbursed on January 30, 2013. This loan bears interest at DTF plus 3.00% per annum, payable quarterly, and matures on January 30, 2020. The principal amount of this loan is payable quarterly beginning in April 2016 through maturity. The proceeds from this loan were used for repay certain indebtedness. As of December 31, 2014, the outstanding principal amount under this loan agreement was COP$100,000 million.

Banco Corpbanca Promissory Note. On April 25, 2013, we entered into a loan with Banco Corpbanca Colombia S.A., for the aggregate principal amount of COP$40,000 million, disbursed on April 25, 2013. This loan bears interest at 7.21% per annum, payable quarterly, and matures on April 25, 2020. The principal amount of this loan is payable quarterly beginning in July 2017 through maturity. The proceeds from this loan were used to repay certain of our indebtedness. As of December 31, 2014, the outstanding principal amount under this loan agreement was COP$40,000 million. We have entered into an interest rate swap agreement with respect to this loan for IBR plus an average of 3.33%.

HELM Bank Promissory Notes. On December 20, 2013 and February 5, 2014, we entered into two loans with HELM Bank S.A., in an aggregate principal amount of COP$81,465 million, evidenced by two promissory notes, disbursed on December 20, 2013 and on February 5, 2014. The first loan bears interest at 8.46% per annum payable quarterly and matures on December 20, 2020. The principal amount of this loan is payable in quarterly installments starting in March 2016 through maturity. The second loan bears interest at 7.91% per annum, payable quarterly, maturing on February 5, 2021. The principal amount of this loan is payable quarterly starting in May 2017 through maturity. As of December 31, 2014, the outstanding principal amount under these loans was COP$81,465 million. We have entered into two interest rate swap agreements with respect to this loan for IBR plus an average of 3.39%.

Itaú Loan Agreement. On March 22, 2013, we entered into a loan with Itaú, for an aggregate principal amount of U.S.$110.0 million, disbursed on March 22, 2013. This loan bears interest at the six month LIBOR rate plus 2.70% per annum payable semi-annually and matures on March 15, 2016. The principal amount of this loan is payable upon maturity. The proceeds from this loan were used as working capital. On September 19, 2014, we and Itaú renegotiated the terms of the loan to (i) amortize COP$57,039 million (U.S.$29.0 million) of principal amount on September 22, 2014, and (ii) to extend the maturity until March 15, 2016, upon which the remaining principal amount of U.S.$81.0 million would be amortized. As of December 31, 2014, the outstanding principal amount under this loan agreement was COP$193,789 million (U.S$81.0 million).

BLADEX Loan Agreement. On September 18, 2014, we entered into a loan with the Latin American Export Bank, or BLADEX, for an aggregate principal amount of U.S.$50.0million, disbursed on September 22, 2014. This loan bears interest at LIBOR plus 2.00% per annum, payable semi-annually, and matures on March 15, 2016. The principal amount of this loan is payable upon maturity. The proceeds from this loan were used as working capital. As of December 31, 2014, the outstanding principal amount under this loan agreement was COP$119,623 million (U.S.$50.0 million).

5.375% Senior Notes due 2022

On September 27, 2012, we issued our 5.375% senior notes due 2022 for an aggregate principal amount of U.S.$750 million. These notes bear interest at 5.375% per annum, payable semi-annually and mature on September 27, 2022. The principal amount under the notes is payable in a single installment upon maturity. The proceeds of these notes were used to repay a portion of our outstanding U.S. dollar-denominated and *peso*-denominated indebtedness. These notes contain certain covenants that restrict, among other things, our ability to: (i) incur additional indebtedness, (ii) make certain payments; (iii) enter into agreements that restrict the payment of dividends by certain subsidiaries; (iv) consummate certain asset sales; (v) enter into certain transactions with affiliates; (vi) incur additional liens; (vii) enter into certain sale and leaseback transactions; and (viii) merge or consolidate with any other person. As of the date of this offering memorandum, we are in compliance with these covenants. These notes also contain a cross-default provision for unpaid or accelerated amounts in excess of U.S.$ 50.0 million. The indenture governing these notes contains an ambiguity regarding the extent to which, following the implementation of IFRS, our PARAPAT Payment Obligations (other than accrued and unpaid portions thereof) could be deemed to constitute indebtedness under such indenture and thereby limit our ability to incur additional indebtedness in certain circumstances. We believe that such an interpretation should not apply but we may elect to cure this ambiguity if and to the extent we deem necessary. As of December 31, 2014, the outstanding principal amount under these senior notes was COP$1,794,345 million.

Capital Expenditures

Our total capital expenditures in 2014 were COP$1,307,309 million, of which COP$1,011,984 million consisted of expenses related to property, plant and equipment, and COP$295,325 million related to intangible assets, including the acquisition of radio spectrum licenses. Our capital expenditures on property, plant and equipment and intangible assets were COP$1,131,439 million in 2013 and COP$807,871 million in 2012. The following table presents our capital expenditures by type for the periods indicated:

	For the year ended December 31,		
	2014	2013	2012
		(in millions of *pesos*)	
Network	861,370	733,971	636,528
Licenses	295,325	268,997	–
Other platforms and services	26,101	8,897	8,909
IT systems	68,327	66,456	107,205
Labor	40,312	35,700	39,042
Distribution channels and points of sale	6,279	7,331	8,430
Property	9,595	10,087	7,757
Total capital expenditures	**1,307,309**	**1,131,439**	**807,871**

Our main capital expenditures between 2012 and 2014 included the following:

- In 2012, 52.0% of our capital expenditures were allocated to our mobile network, while the remaining 48.0% was allocated in our fixed-line network. We allocated COP$262,498 million (equivalent to 32.5% of our capital expenditures) to the expansion of our 3G network infrastructure. We also allocated COP$9,943 million to the expansion of our 2G infrastructure. As a result we expanded our 2G coverage to 81% of the Colombia population. We also allocated COP$104,614 million in certain strategic IT projects, COP$117,125 million to our commercial operations and COP$88,703 million to our broadband network. The cost of labor in connection with 2G, 3G and general infrastructure development was COP$53,230million.

- In 2013, 42.4% of our capital expenditures were allocated to our mobile network, 23.8% to obtaining our 4G license, and the remaining 33.9% was allocated in our fixed-line network. We allocated COP$18,500 million, COP$327,692 million and COP$42,938 million (equivalent to 34.4% of our total capital expenditures) to the expansion of our 2G, 3G and 4G networks, respectively. We also allocated COP$139,529 million to our commercial operations and COP$72,726 million to our broadband network. Our AWS license was granted in October 2013 for a 10-year term in exchange for an aggregate consideration of COP$268,997 million, or 23.8% of our capital expenditures.

- In 2014, 43.6% of our capital expenditures were allocated to our mobile network, 33.8% to our fixed-line network, while the remaining 22.6% was allocated to the renewal of certain mobile licenses. We allocated COP$295,325 million for the renewal of our 40MHz band for an additional ten years, in addition to COP$102,575 million, COP$326.670 million and COP$9,812 million to the expansion of our 4G, 3G and 2G network infrastructure, respectively. We also allocated COP$115,139 million to our broadband network and COP$127,940 million to our commercial operations.

Budgeted Capital Expenditures

In 2014, our capital expenditures were COP$1,307,309 million, of which COP$295,325 million were for our acquisition of radio spectrum licenses and COP$1,011,984 million for other capital expenditures. We anticipate that we will spend COP$929,500 million in 2015, COP$850,735 million in 2016 and COP$850,000 million in 2017 to meet our budgeted capital expenditures. Our budgeted capital expenditures in 2014 were used, and budgeted amounts for 2015, 2016 and 2017 are expected to be used primarily for investments in our 3G and 4G networks, radio spectrum licenses and expansion of infrastructure for fixed-line broadband services. Our actual capital expenditures may exceed or fall short of the budgeted amounts set forth above, both in terms of the aggregate capital expenditures we incur and the years in which we incur them.

Biannual Investment Programs for the Telecommunications Sector

We receive disbursements from the FTIC, a special administrative fund administered by the MINTIC, which are used to implement biannual investment programs for the expansion, replacement and maintenance of our existing infrastructure of low-income and/or rural telephone networks and to promote universal access by lower-income population in Colombia to information technologies and telecommunications. Pursuant to Resolution 087 of 1997, issued by the CRC, these biannual investment programs are financed by contributions from all providers of basic public switched long-distance telephone services (*telefonía pública básica conmutada de larga distancia*) in Colombia, in an aggregate amount corresponding to 5.0% of their gross revenues from domestic and international long-distance public telephone services.

Since 2001, the allocation of the projects and funds to be invested under the Colombian government's biannual investment programs are subject to public auctions in which all telecommunications services providers may participate.

The First Biannual Investment Plan (*Primer Plan Bianual de Reposición, Ampliación y Mantenimiento de Redes de Telefonía Social 2001-2002*) was created pursuant to an agreement executed by and among the MINTIC, the FTIC and Telecom on December 13, 2000, and in 2003, we assumed Telecom's obligations under the First Biannual Investment Program pursuant to the terms of the PARAPAT Agreement. The total amount of the funds allocated by the FTIC to the First Biannual Investment Program was COP$119,415 million, of which COP$64,243 million were provided by us. The infrastructure projects set forth under the First Biannual Investment Program were completed in 2004 and the termination of this program was formalized on July 27, 2009.

The Second Biannual Investment Program (*Segundo Plan Bianual de Reposición y Ampliación de las Redes de Telefonía Social 2004-2006*) was established on December 3, 2004 pursuant to an agreement entered into by the FTIC and us. The total amount of the funds allocated by the FTIC to the Second Biannual Investment Program was COP$182,389 million, of which COP$55,172 million corresponded to unused funds from the First Biannual Investment Program. The infrastructure projects constituting the Second Biannual Investment Program were completed in 2011 and our total investments under this program amounted to COP$156,413 million.

The Third Biannual Investment Program (*Tercer Plan Bianual para el Desarrollo de las Telecomunicaciones Sociales*) was established on January 29, 2010, pursuant to an agreement entered into by and among us, the FTIC and the Corporation for the Development and Use of the Information Technologies and Telecommunications (*Corporación para el Desarrollo, Uso y Aprovechamiento de las Tecnologías de la Información y las Telecomunicaciones*, or CORPOTIC). The total amount of the funds allocated by the FTIC to the Third Biannual Investment Program was COP$109,322 million, of which COP$54,150 million corresponded to funds administered by the FTIC and COP$55,172 million corresponded to unused funds from the First Biannual Investment Program and allocated to the Second Biannual Investment Program. The Third Biannual Investment Program is administered by an independent trust created by us for this purpose. Pursuant to the Third Biannual Investment Program, we agreed to undertake certain infrastructure projects benefitting 137 low-income municipalities in Colombia, including (i) the construction of 26 nodes, (ii) the deployment of 1,571.5 km of fiber optic cable, (iii) the replacement of 106,250 copper pairs and deployment of 52,450 new copper pairs, and (iv) the creation of 68,161 new activations. The infrastructure projects are funded entirely with the funds allocated by the FTIC to this investment program. The Third Biannual Investment Program originally had a term of two years, which was extended through April 30, 2014.

Contractual Obligations and Commitments

The following table presents information relating to our contractual obligations as of December 31, 2014:

Contractual Obligations	Payment Due by Period 2015	2016	2017	2018	Thereafter	Total
			(in millions of *pesos*)			
Financial agreements(1)	352,278	713,968	430,192	408,102	361,191	2,265,731
Bonds and securities	-	-	-	-	1,794,345	1,794,345
PARAPAT Payment Obligations(2)	395,891	367,792	341,687	328,533	2,611,610	4,045,513
Cash interest expense(3)	149,891	163,656	139,528	115,128	140,938	709,141
Sale and leaseback of towers	24,840	25,548	26,276	27,025	192,723	296,413
Total	**922,901**	**1,270,964**	**937,683**	**878,789**	**5,100,806**	**9,111,143**

(1) Includes payments of principal.
(2) *Source*: CONPES Document No. 3721 of 2012. Amounts correspond to Scenario 3 of PARAPAT Restructuring Agreement and are presented in constant *pesos* as of December 31, 2011.
(3) Calculated using interest rates as of December 31, 2014.

For additional information on our contractual commitments, see note 30 to our audited financial statements included elsewhere in this offering memorandum.

Sale and Lease Back of Towers

On August 31, 2010, we entered into an agreement with ATC Sitios Colombia SAS, or ATC, granting ATC rights to the use and profits of 508 cell towers until December 2028 in exchange for an upfront lump-sum payment of COP$152,840 million. On March 28, 2011, we entered into a second agreement with ATC granting ATC rights to the use and profits of 198 cell towers until December 2028 in exchange for an upfront lump-sum payment of COP$63,918 million. Under the terms of these agreements, we will transfer ownership of these cell towers to ATC once we have obtained ownership upon fulfillment of the terms of the PARAPAT Agreement. In addition, on August 31, 2010 and June 28, 2011 we entered into separate lease agreements with ATC, under which ATC granted us the right to use of a portion of these cell towers for a term of eight years.

On September 30, 2010, we (as successor by merger to TEMCO) entered into an agreement with ATC for the sale of 500 cell towers for an aggregate purchase price of COP$140,485 million. In addition, on November 30, 2011, we (as successor by merger to TEMCO) entered into an agreement with ATC for the sale of up to an additional 500 cell towers, with 125 cell towers sold as of December 31, 2011 for an aggregate purchase price of COP$34,082 million. In addition, on September 30, 2010 and November 30, 2011 we (as successor by merger to TEMCO) entered into separate lease agreements with ATC, under which ATC granted us the right to use a portion of these cell towers for a term of eight years.

We have made payments under these lease agreements in the aggregate amount of COP$38,714 million in 2014, COP$39,207 million in 2013 and COP$30,001 million in 2012.

Obligations Deriving from the Auction of Radio Spectrum

In September 2011, we were awarded the use of 15 MHz of radio spectrum in the 1900 MHz band by the MINTIC for a period of 10 years in exchange for COP$95,542 million, to be paid in two equal installments. We paid the first installment of COP$44,309 million in March 2012. The payment of the remaining installment is met through a commitment to provide mobile service coverage to 36 municipalities and internet service to certain educational institutions to be determined at a later date, according to a list provided by the MINTIC that must be validated by field studies. These obligations are being implemented in accordance with the deadlines and terms provided under applicable regulations.

In October 2013, we were awarded the use of 30 MHz of AWS radio spectrum by the MINTIC for a period of 10 years as part of an auction process carried out in June 2013 in exchange for an aggregate consideration of COP$268,997 million, combined in-cash and in-kind. We paid a first installment of COP$164,739 million in

November 2013 and nine additional installments for an aggregate of COP$32,009 million during 2014. The payment of the remaining installment will be met through a commitment to (i) distribute 119,317 tablets to members of vulnerable segments of the Colombian population, and (ii) migrate the telecommunications network of the Colombian National Police and the Command of the Colombian General Armed Forces. This last commitment was undertaken jointly by all licensed mobile operators in Colombia. These obligations are being implemented in accordance with the deadlines and terms provided under applicable regulations.

In March 2014, we renewed our licenses to use 40 MHz of radio spectrum, which we previously operated under mobile concession agreements, for a period of 10 years, as part of a renewal process we commenced in November 2013, in exchange for aggregate consideration of COP$ 286,610 million. We paid the first installment of COP$150,000 million in April 2014. As of the date of this offering memorandum the MINTIC has yet to determine how the payment of the remaining installments will be performed. Either through a commitment (i) to provide assets and/or services in line with the projects listed in Resolution 597 of 2014 of the MINTIC, during the term of the license, or (ii) with the payment in cash during the term of the license.

PARAPAT Payment Obligations

In 2003, as part of the reorganization of Telecom, the state-owned telecommunications services provider in Colombia, we executed the PARAPAT Agreement, pursuant to which we acquired the exclusive right to use and operate the telecommunications assets, including the fixed-line network, previously owned by Telecom and certain affiliates of Telecom. In exchange for this right, we agreed to make the PARAPAT Payment Obligations to the PARAPAT. The PARAPAT Payment Obligations are used by the PARAPAT to fund the obligations of the liquidated companies, including the payment of the outstanding pension obligations to the former employees of Telecom and certain affiliates of Telecom. For a detail description of the PARAPAT Agreement, see "Business—PARAPAT Agreement."

Under the terms of the PARAPAT Agreement, as amended by the PARAPAT Restructuring Agreement, the PARAPAT Payment Obligations payable by us are calculated as follows:

- Our PARAPAT Payment Obligation in 2013 was COP$148,463 million, which was equal to COP$139,353 million adjusted by the variation of the IPC for 2012 *plus* 4%, on a compounded basis.

- Our PARAPAT Payment Obligation in 2014 is equal to COP$258,925 million adjusted by the variation of IPC for 2012 and 2013 *plus* 4.0% for each of the two years between 2012 and 2014, on a compounded basis.

- Each of the PARAPAT Payment Obligations thereafter and through 2028 will be calculated based on one of four payment scenarios to be determined based on the compound growth of our EBITDA (calculated as set forth in the PARAPAT Restructuring Agreement) between 2011 and 2014, as follows:

Payment Profile	Compound EBITDA Growth
Scenario 1	Greater than 12.0%
Scenario 2	Greater than 10.0% and less/equal to 12.0%
Scenario 3	Greater than 6.0% and less/equal to 10.0%
Scenario 4	Equal or less than 6.0%

For purposes of the PARAPAT Restructuring Agreement, "EBITDA" means operating income (loss) *plus* the absolute value of (i) fixed assets depreciation expense, *plus* (ii) amortization of deferred assets, *plus* (iii) PARAPAT Payment Obligations, *plus* (iv) extraordinary income from lease and sale of towers.

The following table sets forth the base amount of the PARAPAT Payment Obligation corresponding to each scenario.

Year	Scenario No.1	Scenario No. 2	Scenario No. 3	Scenario No. 4
		(in constant pesos *of December 31, 2011)*		
2015	441,003,079,588	441,003,079,588	395,890,870,017	396,081,704,077
2016	502,815,916,222	483,822,138,101	367,791,592,361	299,725,215,554
2017	489,852,612,283	380,622,312,953	341,686,726,459	310,924,139,086
2018	327,165,972,233	323,595,829,833	328,533,466,000	318,727,629,175
2019	310,252,389,720	310,779,275,343	319,078,498,616	303,497,914,621
2020	288,455,626,988	292,943,134,891	304,584,121,542	310,393,204,497
2021	268,190,032,588	276,130,005,183	290,748,591,630	299,042,055,752
2022	249,392,020,483	260,282,445,254	277,541,458,116	288,085,257,466
2023	231,830,159,385	245,344,209,852	264,934,539,045	277,511,620,864
2024	215,542,847,657	231,263,291,290	252,899,876,597	267,308,731,031
2025	200,400,077,743	217,990,619,845	241,412,381,599	257,464,588,243
2026	186,320,672,965	205,479,539,797	230,446,326,149	247,968,293,126
2027	173,230,671,573	193,686,461,382	219,978,248,329	238,808,409,914
2028	161,060,528,116	182,570,264,247	209,985,911,012	229,973,844,057

The base amount of the PARAPAT Payment Obligations for 2015 through 2028 shall be adjusted using the following formula to determine future year payment amounts:

$$CCn = PPn * (I_{(n-1)}/I_{2011}) * (1 + 4\%)^{\wedge(n-2012)}$$

where "CCn" means the amount of the payment due in "n" year; "PPn" means the base amount of the PARAPAT Payment Obligation in *pesos* as determined by reference to the table above, in "n" year; "$I_{(n-1)}$" means the IPC, as certified by the DANE on December 31 of the most recent prior year to "n" and "I_{2011}"means the IPC, as certified by the DANE on December 31, 2011.

Based on our estimated results of operations for the year ended December 31, 2014, the compound growth of our EBITDA from 2011 to 2014 was 9.4% (calculated pursuant to the terms of the Investment Agreement), which corresponds to the Scenario 3 set forth under the PARAPAT Restructuring Agreement. Therefore, we our PARAPAT Payment Obligation in 2015 will be equal to COP$395,891 million adjusted by the variation of IPC for 2013 and 2014 *plus* 4.0% for each of the three years between 2012 and 2015, on a compounded basis.

Memorandum Accounts and Material Off-Balance Sheet Arrangements

Certain transactions entered into by us, are disclosed in memorandum accounts, but not recognized in, the respective entity's financial statements. Memorandum accounts are contingent on future events; thus, the future monetary impact of memorandum accounts on our results of operations and financial condition may vary substantially from the amounts reported in such accounts for any given period. Fiscal debit and credit accounts and control debit and credit accounts do not represent potential gains or losses affecting our current or future financial condition and results of operations. Items in these accounts are disclosed for control purposes only. For a description of the items recognized under memorandum accounts, see "—Financial Presentation and Accounting Policies—Critical Accounting Policies and Estimates."

The following table summarizes the balance of our memorandum accounts as of the dates indicated:

	As of December 31		
	2014	2013	2012
		(*in millions of* pesos)	
Debit accounts:			
Contingent rights:			
Assets held by third parties	85,846	16,358	12,725
Contingent rights from concessions	600,946	368,989	34,814
Valuation of hedge instruments	25,019	—	—
Litigation and/or lawsuits with favorable outcomes	112,738	120,775	193,475
Total	**824,549**	**506,122**	**241,014**
Tax:			
Accumulated tax losses	2,519,496	2,504,062	2,305,104
Excess of presumptive income	118,868	186,340	321,438
	2,638,364	**2,690,402**	**2,626,542**
Control:			
Assets adjusted for inflation	96,104	140,068	278,677
Write-offs of assets	18,666	18,666	18,666
Write-offs of accounts receivables	1,007,099	962,410	927,806
Plant, property and equipment	2,703,390	2,093,409	1,754,163
Others	859	—	—
	3,826,118	**3,214,553**	**2,979,312**
Total debit memorandum accounts	**7,289,031**	**6,411,078**	**5,846,868**
Credit accounts:			
Contingent responsibilities:			
Litigation and/or lawsuits (remote)	1,873,187	4,100,447	4,820,442
Contracts pending execution	5,564,771	4,425,027	3,923,252
Payments to PARAPAT	482,060	292,452	148,463
Contractual guarantees	17,670	14,038	12,874
Valuation of hedge instruments	—	140,291	51,311
	7,937,688	**8,972,255**	**8,956,343**
Tax:			
Difference between accounting and tax equity	710,677	731,691	283,906
Difference between accounting and tax loss	120,356	83,619	67,594
	831,033	**815,310**	**351,500**
Control:			
Assets corresponding to the liquidation of Telecom and Teleasociadas, net	778,714	901,137	1,034,409
Equity inflation adjustments	483,899	529,501	575,104
Other memorandum accounts	—	—	242466
	1,262,613	**1,430,638**	**1,851,979**
Total credit memorandum accounts	**10,031,334**	**11,218,203**	**11,159,822**

Under Colombian GAAP, net assets and the financial liabilities relating to the PARAPAT Agreement and the PARAPAT Payment Obligations, respectively, are recorded off-balance sheet as memorandum accounts. In connection with our adoption of IFRS, as of January 1, 2015, we are required to account for the PARAPAT Agreement as a financial lease. As a result, the net assets related to the PARAPAT Agreement will be recorded under our property, plant and equipment, intangible assets and other financial assets on our balance sheet and all PARAPAT Payment Obligations payable in the future will be recognized as a liability under other financial obligations. For additional information on the effects of our adoption of IFRS, see "Presentation of Financial and Other Information—Financial Statements—Effects of IFRS Adoption."

Our off-balance sheet transactions that have or are reasonably likely to have a current or future effect on our financial condition and results of operations are included in the line-item "contingent liabilities."

Quantitative and Qualitative Disclosures About Market Risk

Risk Management

In the ordinary course of our business activities, we are exposed to various market risks that are beyond our control, including fluctuations in interest rates and foreign exchange rates, and which may have an adverse effect on the value of our financial assets and liabilities, future cash flows and profit. As a result of these market risks, we could suffer a loss due to adverse changes in interest rates or foreign exchange rates.

Our risk management strategy is designed to mitigate the financial impact derived from our exposure to market risks, and accordingly, we have used and may continue to use foreign currency and interest rate derivative instruments to mitigate our exposure to market risks. Our hedging activities are governed by a market risk management policy, which establishes applicable corporate governance standards and guidelines for application by us. Our risk management policies are defined with the purpose of identifying and analyzing our risk exposure, putting in place effective risk controls and thresholds, and monitoring risks and the observance of those thresholds. Our risk management policies and systems are reviewed periodically to ensure that they reflect changes in market conditions and in our business.

Foreign Exchange and Interest Rate Risk

To the extent some of our debt is denominated in U.S. dollars, and bears interest at floating rates, our financial condition and results of operations may be affected by changes in foreign currency exchange rates, primarily the U.S. dollar/Colombian *peso* rate, and market interest rates such as DTF, IBR and LIBOR, which are the base interest rates for all of our floating rate indebtedness.

In order to mitigate the effects of foreign exchange variations, Telefónica established a global hedging policy, which requires its subsidiaries, including us, to hedge all of their exposure to foreign exchange risk either through natural hedges or derivatives. In addition to entering into derivative instruments to hedge exposure to exchange variations in connection with our indebtedness denominated in foreign currencies, we manage exposure to exchange variations affecting our accounts receivable and accounts payable denominated in foreign currency. These accounts originate primarily from foreign suppliers and operators, and affect both capital expenditures, and operating expenditures.

As of December 31, 2014, our outstanding U.S. dollar-denominated indebtedness amounted to COP$2,554,166 million (U.S.$1,067.6 million), of which 29.7% bears interest at LIBOR plus a spread ranging from 0.171% to 2.7%, while the remaining 70.3%, consists of our 5.375% senior notes due 2022, bears interest at a fixed rate of 5.375%. As of the same date, we had entered into non-deliverable forward, or NDF, and cross-currency swap, or CCS, contracts with respect to 100% of our U.S. dollar-denominated indebtedness. As of December 31, 2014, our total outstanding indebtedness net of exchange rate hedging instruments related to our financial indebtedness denominated in U.S. dollars was COP$2,369,362 million, of which COP$165,306 million was short-term indebtedness, including the current portion of long-term indebtedness, and COP$2,204,056 million was long-term indebtedness. Our total outstanding indebtedness net of exchange rate hedging instruments related to our financial indebtedness as of December 31, 2014 was COP$3,875,272 million. As of December, 2014, we had outstanding hedging agreements in a nominal amount of U.S.$185.8 million in respect of our net exposure to foreign exchange variations arising from the mismatch between our foreign currency-denominated investments, accounts payable and accounts receivable.

Derivative Financial Instruments

In an effort to hedge our exposure to market risk derived from our foreign currency-denominated debt, we have entered into various derivative financial instrument transactions with foreign and domestic financial institutions. We actively evaluate the creditworthiness of the financial institutions and corporations that are counterparties to our derivative financial instruments, and we believe that we have the financial capacity to honor our obligations in connection with such instruments.

To offset foreign exchange and interest rate risk, we have entered into derivative financial instruments to minimize the impact of fluctuations in exchange rates on our dollar-denominated indebtedness and also on our net foreign exchange exposure from accounts payable and receivable and investments in foreign currency. These derivative instruments typically consist of CCS and NDF contracts. As of December 31, 2014, we had outstanding CCS covering U.S. dollar-denominated liabilities of COP$1,129,682 million (U.S.$472.2 million). As of December 31, 2014, we had outstanding non-deliverable forward contracts covering U.S. dollar-denominated and Euro-denominated liabilities of COP$1,869,003 million (U.S.$781.2 million).

The table below lists our derivative financial instruments as of December 31, 2014.

	Contractual Obligations Hedged					
	Bond		EIB		Other Loans	Assets/ Liabilities(1)
Principal Amount (in millions)	U.S.$340.0	U.S.$410.0	U.S.$71.9	U.S.$62.2	U.S.$183.5	U.S.$185.8
Date of Hedging Contract	14-Dec-14	06-Apr-14	18-Oct-14	18-May-11	21-Dec-14	13-Nov-14
Term of Hedge(2)	1.0 years	3.5 years	0.9 years	7.2 years	0.9 years	0.3 years
Maturity(3)	02-Dec-15	27-Sep-17	27-Sep-15	29-Jul-18	23-Nov-15	20-Feb-15
Instrument(4)	NDF	CCS	NDF	CCS	NDF	NDF

(1) Consisting of accounts payable and receivable with suppliers denominated in foreign currency.
(2) Considering from the initial date of the hedging contracts.
(3) Considering the average maturity of the hedging contracts.
(4) Consisting of either CCS or NDF contracts.

Sensitivity Analysis

As of December 31, 2014, 62.9% of our indebtedness bears interest at variable rates. As a result, we are exposed to risks from changing interest rates. We enter into derivative financial instruments to minimize the impact of fluctuations in variable interest rates on our indebtedness. For example, under these derivative instruments, if the average interest rate applicable to our indebtedness for the year ended December 31, 2014 had been 1.0% higher than the average interest rate in such period, our financial expenses in 2014 would have increased by COP$29,306 million.

THE COLOMBIAN TELECOMMUNICATIONS INDUSTRY

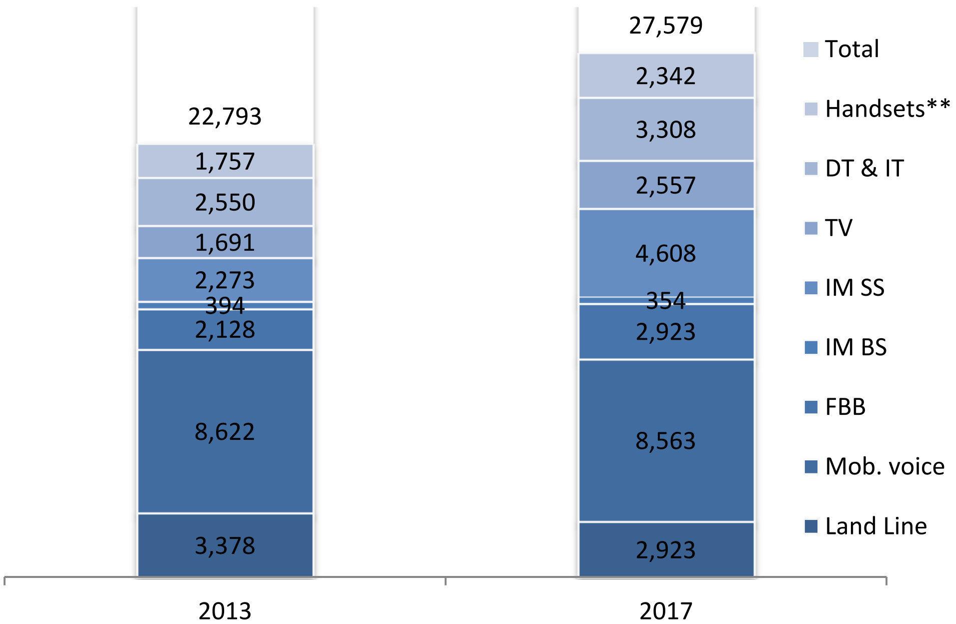
General

The Colombian telecommunications industry comprises, among others, the following services:

- mobile telecommunications services, which include mobile voice, mobile data and value-added services, such as SMS, MMS, voicemail and chat;
- fixed-line telecommunications services, which include local and long-distance services;
- internet services; and
- subscription television services.

During 2013 the total revenues of the telecommunications industry in Colombia increased by 6.8% from COP$21,343,000 million in 2012 to COP$22,793,000 million in 2013, according to information from the MINTIC, the ANTV, the SFC, the Superintendency of Corporations, operators' annual reports and internal estimates.

The following diagram presents the Colombian telecommunications industry revenues by type of service for 2013 as compared to projected growth for each service in 2017.



Source: MINTIC, ANTV, SFC, Superintendency of Corporations, operators' annual reports and internal estimates.

As a general trend, mobile telecommunications services have been increasingly replacing fixed-line telecommunications services in Colombia since 2005, as evidenced by a continued decline in fixed-line telecommunications penetration (calculated as the total number of subscribers divided by total population for a given period) in Colombia, according to information from the SIC, the MINTIC and the ANTV. In recent years, fixed-line penetration has decreased from 15.5% in 2011, to 15.1% in 2012, further decreasing to 15.0% in 2013. By contrast, mobile telecommunications penetration (calculated as the number of subscribers per 100 residents) increased from 99.8% in 2011 to 104.7% in 2012, further increasing to 106.1% in 2013. As of September 30, 2014, the number of subscribers to fixed-line services was 7.2 million subscribers, resulting in a penetration rate of 15.1%.

In addition, the number of subscribers to dedicated Internet access services, whereby the user has continuously active Internet access (typically provided through the sum of digital subscriber lines, or xDSL, cable or fiber optic technologies), has continued to increase. In recent years, Internet broadband penetration increased from 7.2% in 2011, to 8.3% in 2012, further increasing to 9.5% in 2013. As of December 31, 2013, there were 4,491,817 dedicated Internet service subscribers in Colombia, according to MINTIC, representing an increase of 15.2% from 3,898,754 subscribers at the end of 2012 and positioning Colombia as one of the world's leading countries in terms of the growth rates for dedicated Internet access services. According to Pyramid Research, Colombia has the thirteenth largest CAGR among 60 countries for the period from 2009 to 2013 in terms of its fixed broadband Internet services. As of September 30, 2014, the number of subscribers to Internet Broadband services was 4.9 million subscribers, with a penetration rate of 10.3%.

The number of subscription television service subscribers has also increased. In recent years, subscription television service penetration increased from 8.4% in 2011 to 9.2% in 2012, and further increased to 9.9% in 2013. The Colombian subscription television market has benefited from the prevalence of televisions in Colombian households. According to the DANE, 92.0% of Colombian homes had a television as of December 31, 2013. Combined with an increasing number of bundled service packages (consisting of two or more of television, Internet and telephone services), the increasing number of homes with television sets has enabled the subscription television market to grow at a faster pace than the other components of the telecommunications industry as a whole, according to the MINTIC and the ANTV. According to reports from the ANTV, the subscription television subscriber base has grown at an annual rate of 11.4% between 2011 and 2012, 8.3% in 2013. As of September 30, 2014, the number of subscribers to subscription television services was 4.9 million subscribers, with a penetration rate of 10.3%.

The table below presents the total number of subscribers and penetration rates for mobile voice, Internet broadband, television and fixed-line telephone services in Colombia, each calculated as the total number of subscribers divided by the population of Colombia at the end of a given period, since 2007.

	Year ended December 30,							As of September 30,
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Mobile voice								
Total subscribers (thousand)	33,941	41,365	41,155	44,478	46,200	49,066	50,295	53,584
Penetration (1)	76.8%	92.5%	91.0%	97.2%	99.8%	104.7%	106.1%	112.1%
Internet broadband								
Total subscribers (thousand)	1,207	1,903	2,216	2,651	3,331	3,899	4,491	4,926
Penetration (1)	2.7%	4.3%	4.9%	5.8%	7.2%	8.3%	9.5%	10.3%
Television								
Total subscribers (thousand)	2,634	3,156	3,206	3,511	3,877	4,321	4,679	4,917
Penetration (1)	6.0%	7.1%	7.1%	7.7%	8.4%	9.2%	9.9%	10.3%
Fixed-line telephone								
Total subscribers (thousand)	7,883	7,905	7,286	7,216	7,170	7,075	7,111	7,220
Penetration (1)	17.8%	17.8%	16.1%	15.8%	15.5%	15.1%	15.0%	15.1%

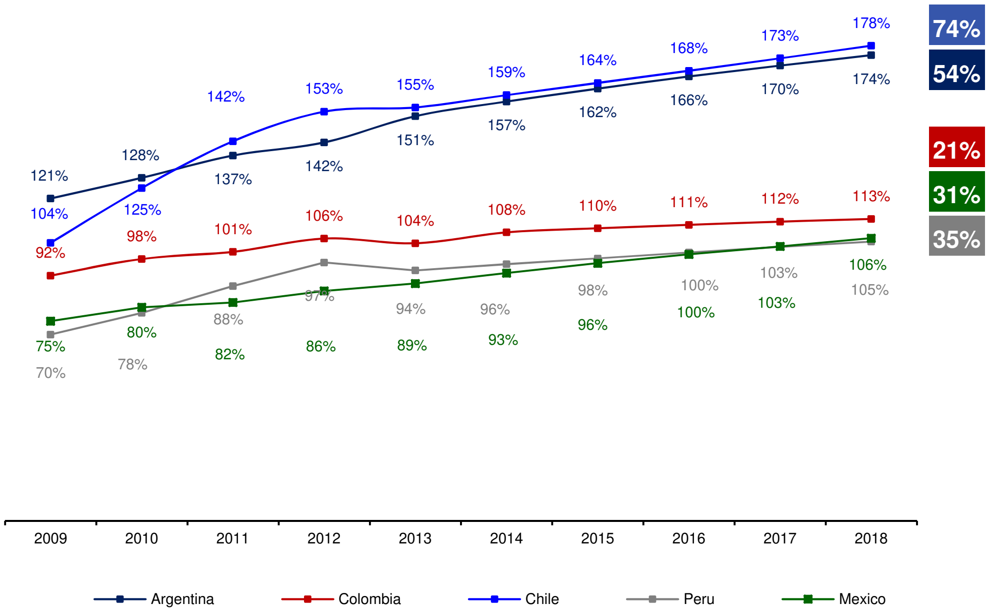
Source: SIC, MINTIC and ANTV.

(1) Calculated as the total number of subscribers divided by total population for a given period.

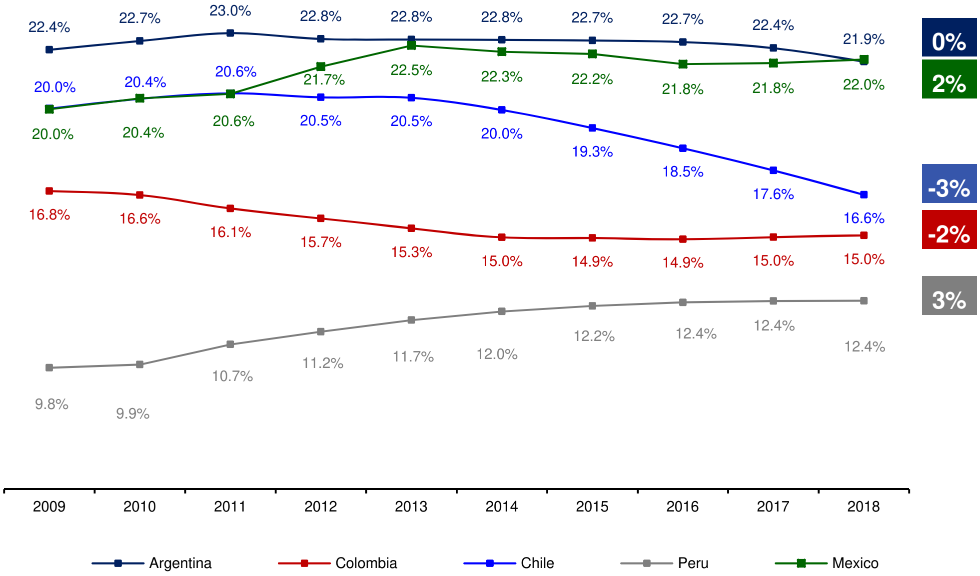
Projection of Telecommunications Penetration Rates

The graphics below illustrate the historical and estimated penetration for mobile, fixed-line, Internet and subscription television services in Colombia, which are calculated by dividing the number of total subscribers by the total population in Colombia. These projections are based on information from Pyramid Research, and there can be no assurance that these projections will be realized.

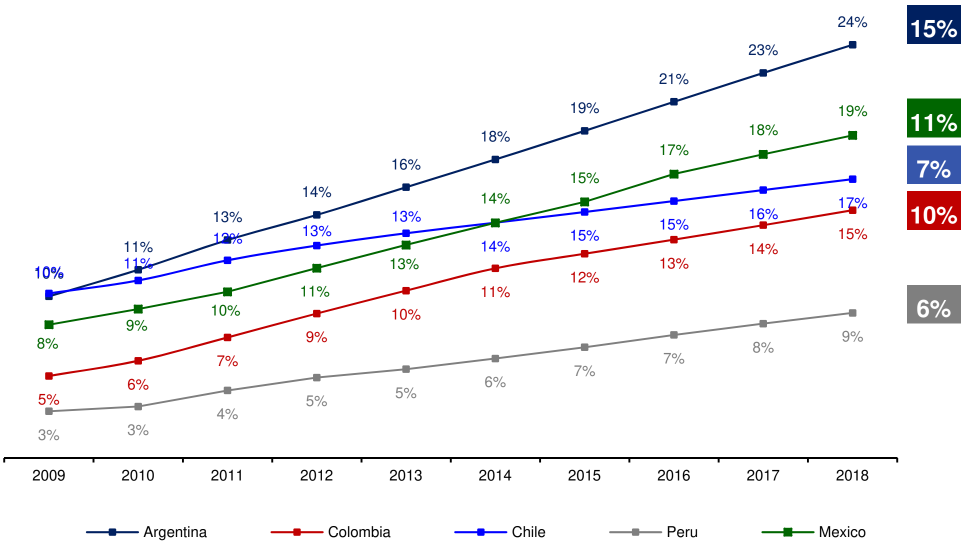
Penetration rates for mobile phone services in Colombia are expected to increase by 21.0% from 2009 to 2018, according to Pyramid Research, as presented below:



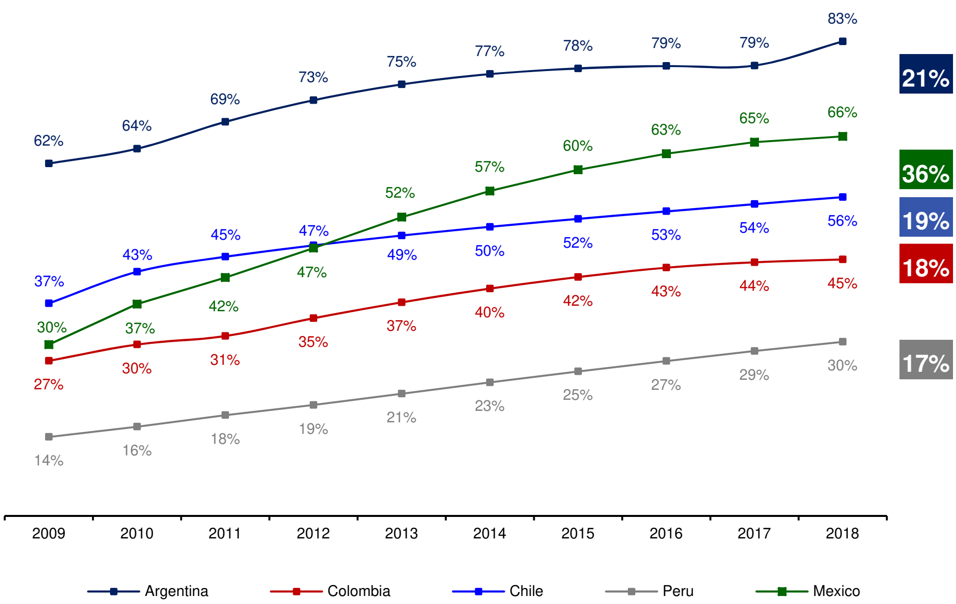
Penetration rates for fixed-line phone services in Colombia are to fall by 2.0% from 2009 to 2018, according to Pyramid Research, as presented below:



Penetration rates for internet broadband services in Colombia are expected to increase by 10.0% from 2009 to 2018, according to Pyramid Research, as presented below:



Penetration rates for subscription television services in Colombia are expected to increase by 18.0%from 2009 to 2018, according to Pyramid Research, as presented below:



Key Characteristics and Trends

The key characteristics and trends of the Colombian telecommunications market are the following:

Significant industry growth. Overall, the global telecommunications industry is expanding. Similarly, revenues in the Colombian telecommunications market have nearly tripled since 2000 and are expected to continue growing, according to MINTIC. The Colombian mobile telecommunications services sector generates the highest revenues within the telecommunications industry; mobile telecommunications services represented 57.0% of the telecommunications industry's revenues in 2013, according to internal estimates based on annual reports of market operators. Likewise, Internet broadband services had a CAGR of 40.0% between 2005 and 2013, according to MINTIC. The growth illustrated by these figures has been the key driver of growth in the Colombian telecommunications industry as a whole. Additionally, within the Colombian mobile telecommunications sector, there has been a strong predominance of pre-paid versus post-paid subscribers, with 79.6% of subscribers constituting pre-paid subscribers as of September 30, 2014, according to information available from the MINTIC.

Revenue substitution and expanding market segments. Since 2000, the telecommunications industry, in Colombia and elsewhere, has experienced a revenue substitution trend due to the migration of traditional voice customers (*i.e.* landline) to newer services such as mobile telephone and Internet services. The share of revenues attributable to traditional voice services as a portion of overall industry revenues has been decreasing steadily since 2000, when fixed-line telecommunications revenues represented 72.0% of the revenues of the telecommunications industry as a whole, to 45% at the end of 2005 and to an estimated 15.0% at the end of 2013, according to information available from the MINTIC, the ANTV, the SFC, the Superintendency of Corporations, operators' annual reports and internal estimates.

Accordingly, the share of revenues attributable to newer services, such as mobile telephone and Internet services, has been increasing. For instance, revenues associated with mobile telecommunications services represented 21% of the industry's revenue as of December 31, 2000, 47.8% at the end of 2005 and an estimated 57.0% as of December 31, 2013, in each case according to information available from the MINTIC, the ANTV, the SFC, the Superintendency of Corporations, operators' annual reports and internal estimates.

Transition towards Next Generation Networks. Colombian telecommunications providers, which traditionally used multiple networks for their various services, are integrating their networks into Next Generation Networks, or NGNs. NGNs incorporate IP technology and implement new network architecture which allows next generation services to be provided through a single network, rather than separate networks for each service.

4G network deployment. After being awarded with a spectrum license in June 2013, we were the first integrated operator to launch 4G services in Colombia in December 2013, with other competitors launching these services in the following months 2014. Due to the important increase in data traffic, LTE networks have been rapidly deployed by all operators, including newer market entrants like DirecTV, ETB and Avantel, which offer TV and Internet services through this technology. Historically, these newer market entrants have focused on specific segments: DirecTV, with a focus on its one million subscription television subscribers, Avantel with a focus on the corporate subscribers, and ETB with focus on its 1.4 million landline subscribers in Bogotá and surrounding municipalities.

Increasing levels of Internet access penetration. The penetration rate of Internet and broadband access services in Colombia has significantly increased in recent years due to increased availability of personal computers in Colombia and the efforts of the Colombian government to promote the use of Internet technologies. Dedicated Internet access grew from 308 thousand subscribers as of December 2005 to 4.9 million subscribers as of September 30, 2014, according to MINTIC, which represents a CAGR of 36.2%. The Colombian government also works to facilitate increasing Internet access penetration, through its sponsorship and development of the *Vive Digital Plan*, a program designed to promote the use of information and communications technologies in Colombia by focusing on infrastructure, services, users and applications. *Vive Digital* aims to provide 20 million active Internet connections and Internet coverage for all homes and SMEs in Colombia by 2018, in addition to reaching an Internet penetration similar to that of the developed countries.

Transition towards IP-based integrated telecommunications solutions. The telecommunications industry in Colombia is undergoing a rapid transition towards IP-based integrated telecommunications solutions. Large telecommunications service providers, including us, are offering bundled services whereby multiple telecommunications services are provided jointly through a single provider, rather than separately through different providers. This marketing strategy assumes that a service provider delivering multiple telecommunications services lowers the transaction costs for customers who would otherwise be forced to pay multiple service providers for separate services at higher costs and with higher administrative burdens. Among the main subscription television operators, we, Claro Colombia, Colombia Móvil and ETB offer bundled landline voice, Internet broadband and subscription television services.

High levels of regulation and transition from a service-based regulatory framework towards a regulatory framework for an integrated market. Historically, telecommunications services in Colombia were regulated through several laws, decrees and regulations, which were designed to protect consumers and grant powers to several authorities to oversee the activities of telecommunications service providers, in addition to establishing a regulatory framework based on the various telecommunications services offered. However, since the enactment of Law 1341, the regulatory framework is based on a technological-neutrality and an open market regime, allowing any person to carry out any telecommunications activity as long as they comply with legal and regulatory requirements. In general, the Colombian telecommunications regulations are aimed at promoting service quality, universal access, free competition and restricting anti-competitive practices. See "Regulation of the Colombian Telecommunications Industry, below"

Market Operators

The following table shows the market share as of September 30, 2014, in terms of number of subscribers for each of the main telecommunications operators in Colombia:

	Fixed line	Mobile (1)	Television	Internet
	(market share in subscribers)			
Movistar	20.3%	23.5%	8.2%	19.2%
Claro	20.4%	54.7%	43.3%	33.0%
Tigo and Une (on a combined basis) (2)	21.5%	16.9%	21.0%	25.5%
ETB	20.1%	0.0%	0.3%	11.3%
DirecTV	0.0%	0.0%	19.8%	0.1%
Others	17.6%	4.9%	7.4%	10.9%
Total subscribers (in thousands)	7,220	53,584	4,917	4,926
Penetration (3)	54.0%	112.1%	36.8%	36.8%

Source: MINTIC and ANTV.

(1) Includes voice and data services.

(2) Merged in August 2014.

(3) Penetration for fixed-line, television and Internet services is calculated by dividing the total number of subscribers by the total number of households in Colombia according to the DANE. Penetration for mobile services is calculated by dividing the number of total subscribers by the total population in Colombia, according to the DANE.

The Colombian telecommunications market is competitive. Fixed-line and mobile service operators employ aggressive marketing strategies to gain market share. Consistent with global trends, operators in the Colombian fixed-line telecommunications market are offering plans consisting of voice, Internet and television services targeted specifically to residential customers and small- and medium-sized enterprises. For large corporate customers, operators are offering customized services to consolidate their IP networks for data and voice services, enabling them to integrate all of their IT.

With respect to mobile and Internet services, the development of 3G and 4G technology has resulted in significant growth in the wireless broadband market. Coverage and Internet speeds have improved as a result of the introduction of 4G technologies.

According to the MINTIC, the ANTV and the SIC, as of September 30, 2014, ETB, Colombia Móvil, Claro Colombia and us controlled 82.4% of the fixed-line telephony business in Colombia, in terms of number of subscribers, while we and Claro Colombia collectively controlled 78.1% of the mobile business in Colombia (with Claro Colombia alone accounting for 54.7%) in terms of subscribers. For additional information regarding the competitive market in the Colombian telecommunications industry, see "Business—Competition."

The Colombian Mobile Telecommunications Industry

Overview

Mobile telecommunications services providers began entering the Colombian telecommunications market in 1994, and a series of acquisitions and consolidations resulted in three authorized operators serving the Colombian market in 2003: Claro Colombia, Colombia Móvil and us. In Colombia, mobile telecommunications is one of the most dynamic segments within the broader telecommunications market. Mobile telecommunications have spread throughout all regions of Colombia, including rural areas where residents only gained access to fixed-line telecommunications services relatively recently.

The Colombian mobile telecommunications market has grown steadily between 2000 and 2013. As of 2013, there were 50.3 million mobile voice subscribers in Colombia, representing a CAGR of 27.0% compared to 2.3 million in 2000, according to MINTIC and SIC. Reasons for this growth include gains in commercial activity in Colombia, the development of value-added services, mobile Internet and the introduction of 4G technologies, the growth in pre-paid mobile services and the strategy of marketing these services, as well as a competitive regulatory structure in Colombia. Market trends have also indicated the continued growth of mobile services, especially for wireless Internet and value-added services.

Demographics and Subscriber Characteristics

Mobile telecommunications services are available to most Colombians. As of September 30, 2014, mobile services (including voice and data services) were available in 99.0% of Colombia's 1,121 municipalities, while landline services were available in 91.7% of Colombia's municipalities, according to MINTIC.

As Colombia continues to experience improving macroeconomic conditions, consumers benefit from expanding purchasing power, greater consumer financing and higher levels of disposable income, which serve to increase consumer demand for mobile telecommunication services. These favorable conditions, including growth in the target demographic market, offer an opportunity for profitable growth and the ability to serve an ever-increasing number of customers.

Networks

According to the DANE, Colombia covers 1,141,748 square kilometers and, as of September 30 2014, had a population of approximately 47.6 million. As of September 30, 2014, GSM, 3G and 4G networks in Colombia covered approximately 99.2%, 99.0% and 11.0% of the country's municipalities, respectively. 4G networks have been deployed in 128 municipalities (11.0%) that contain 82.0% of the population residing in urban areas in the country, according to internal estimates.

The following table describes the technologies and frequency bands used by each network operator in Colombia as of December 31, 2014:

	Movistar			Claro Colombia			Colombia Móvil			Avantel	DirecTV
Frequency (MHz)	850	1900	AWS	850	1900	2500	850	2500	AWS	AWS	2500
Bandwidth (MHz)	30	55		30	60(2)		55	50	30(3)	30	70
Ownership	Telefónica and the Republic of Colombia			América Móvil			Millicom International and UNE EPM			Private Fund Discovery	DirecTV

Source: MINTIC.

(1) Merged in August 2014.
(2) 5MHz are a temporary assignment from MINTIC.
(3) 30 MHz of AWS were acquired in a temporary partnership with ETB.

Voice Services

The Colombian mobile telecommunications market is characterized by a large number of pre-paid subscribers. As of September 30, 2014, approximately 79.6% of mobile subscribers in Colombia were pre-paid subscribers, according to MINTIC. Voice services and mobile broadband services have driven the increase of market penetration in mobile telecommunications.

Mobile Internet Services

According to information available from MINTIC, data card subscribers increased 40.8% from 1.0 million as of December 31, 2010, to 1.4 million as of December 31, 2013. Data card subscribers reached 1.6 million as of September 30, 2014, according to information available from MINTIC. Subscribers of Internet services through mobile phones increased 346.0% from 0.7 million in 2010 to 3.2 million in 2013, according to MINTIC.

Data and Value-Added Services

Continued growth of the mobile broadband segment in Colombia has been an important factor in the overall growth of the Colombian mobile telecommunications industry since 2008. Consumers are increasingly utilizing mobile data services such as MBB, mobile web browsing, video and audio streaming through services such as *Netflix* and *YouTube*, social networks such as *Facebook*, *Twitter* and *Instagram*, wireless online purchases and utilizing user-to-user services (such as including online chat services, SMS, MMS and e-mail) and "machine-to-machine" communications.

Every mobile telecommunication company in Colombia offers multiple wireless products, including handsets, smartphones, accessories and value-added services, such as SMS, voice mail, roaming, MMS, data transmission, entertainment media and content, voicemail and chat, each of which represents a significant portion of value-added service revenues.

Major Competitors in Mobile Telecommunications in Colombia

The Colombian telecommunications market is regarded as competitive due to the extensive and aggressive marketing strategies of fixed-line and mobile services operators. Claro Colombia and Colombia Móvil are our primary competitors in the Colombian mobile telecommunications market. Mobile telecommunications penetration has increased in Colombia from 50.6% in 2005 to 106.1% in 2013, according to information available from MINTIC.

Claro Colombia

The *Claro* brand comprises all the fixed and mobile telecommunications services provided by América Móvil through Claro Colombia. Formerly operating under the *Comcel* brand, América Móvil commenced operations under the *Claro* brand in June 2012. Claro Colombia is the largest mobile operator in Colombia and is focused on aggressive growth in mobile broadband and increasing the loyalty of its subscriber base. Claro Colombia has been declared a dominant operator in the mobile market by the SIC and is currently the market leader, with 54.7% of all subscribers as of September 30, 2014, according to MINTIC. In addition, according to information from MINTIC, Claro Colombia supplies 20.4% of the fixed-line services, 33.0% of Internet broadband services (in terms of subscribers), and 43.3% of satellite TV services (in terms of subscribers), as of September 30, 2014.

Colombia Móvil

After the recent merger between Colombia Móvil and UNE EPM in August 2014, the *Tigo* and *Une* brands are both operated by Colombia Móvil. The *Tigo* brand comprises mobile communications services while the *Une* brand comprises fixed-line communications services. Colombia Móvil received its license from the Colombian government following a bidding process in 2003. Currently, Millicom International owns 50% minus one share of Colombia Móvil, while UNE EPM owns the remaining 50% plus one share. Even though UNE EPM holds a majority stake in the company, administration of the company has been granted to Millicom International under the merger agreement. As of September 30, 2014, the *Tigo* and *Une* brands had a combined subscriber market share of 16.9% in mobile, 21.5% in fixed voice, and 21.0% in paid TV.

Other Competitors

Competition in the Colombian mobile telecommunications market is intensifying as the result of several new participants entering into the Colombian mobile telecommunications market.

Certain operators, such as DirecTV, Avantel and ETB, were granted a 4G spectrum in the 2013 auction and are now offering mobile services, each of which has deployed networks and launched new offers to the Colombian market. Such services and products are tailored to specific market segments; DirecTV focuses on its one million subscription television clients, Avantel focuses on its corporate clients, and ETB focuses on its 1.4 million fixed-line telecommunications customers in Bogotá and its surrounding municipalities.

In addition to these operators are the MVNOs, which are Mobile operators that do not own their own spectrum and generally do not own their own network infrastructure, but instead typically enter into business arrangements with traditional mobile operators to buy minutes for sale to their own customers. Beginning in 2012, four MVNO's operate in Colombia; UFF, ETB and Une use the Tigo network, while Virgin Mobile uses our network. These MVNOs have collectively captured 4.5% market share of mobile subscribers as of September 30, 2014, as compared to 0.5% at the end of 2011, according to MINTIC. Virgin Mobile, the largest MVNO, had captured 3.2% of the mobile market, in terms of subscribers as of September 30, 2014.

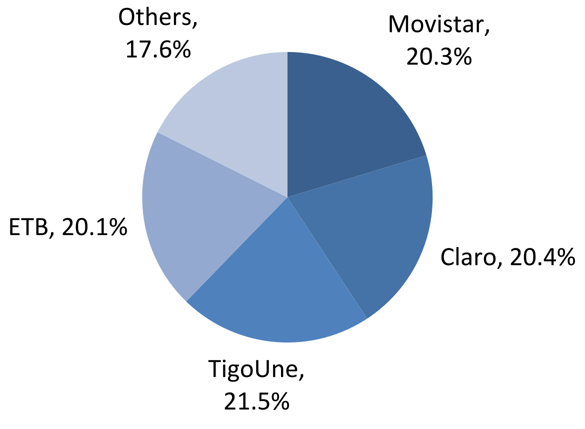
For additional information, see "Business—Competition" in this offering memorandum.

Fixed-line Telecommunications Services

Local Telephone Services

As of December 31, 2013, Colombia had 15 telephone lines per 100 inhabitants, according to MINTIC, and we estimate that local telephone services represented approximately 15.0% of the revenues of the Colombian telecommunications industry representing a decrease from 19.0% as of December 31, 2011. Telecommunications providers have responded to increased competition from different market participants, including the mobile telecommunication sector, by implementing strategies such as flat fee limited and unlimited minute plans.

The following chart sets forth the share, in terms of telephone lines in service, of the various local service providers as of September 30, 2014:



Source: MINTIC.

Long-Distance Services

Domestic long-distance traffic decreased 6.2%, from 1.8 billion minutes in 2012, to 1.7 billion minutes in 2013, according to MINTIC. This decrease is largely the result of traffic migration from fixed-line long-distance to mobile technologies, since calls between mobile telephones in Colombia are charged as local calls rather than long-distance calls, regardless of the caller's geographical location, allowing callers using mobile devices for domestic long-distance calls to avoid charges associated with long-distance calls.

The volume of incoming international long-distance traffic increased 21.0%, from 3.4 billion minutes in 2012, to 4.1 billion minutes in 2013. The volume of outgoing international long-distance traffic in 2013 decreased by 8.2%, from 354 million minutes in 2012 to 325 million minutes in 2013. In general, this decrease was mainly due to the increase in the demand of VoIP, services, whereby telephone services are provided over the Internet as opposed to being provided over fixed telephone lines, among other technologies.

We expect that long-distance traffic and revenues will decline in the future due to the substitution of IP technologies for traditional voice channels and the further expansion of the mobile market. However, long-distance providers, including us, have implemented strategies designed to combat this trend, including package services and discounts and unlimited minutes.

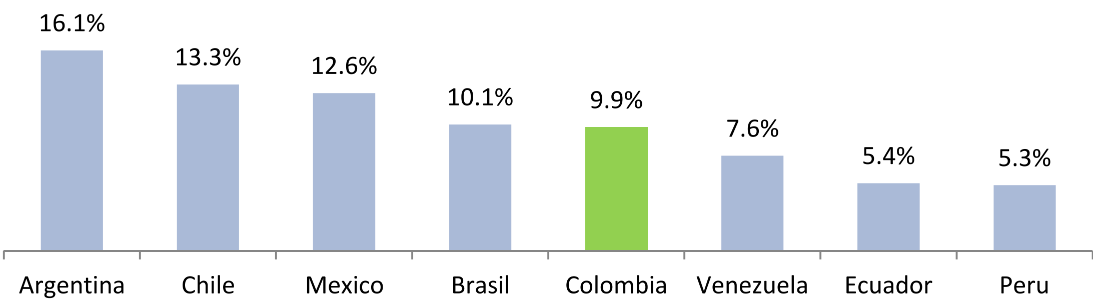
Internet

The Internet services market in Colombia has grown rapidly in the last several years. According to MINTIC, the subscriber base in Colombia has grown from 308 thousand subscribers as of December 2005 to 4.5 million subscribers as of December 2013, and 4.9 million as of September 30, 2014. This represents an increase in penetration (expressed in terms of subscribers to population) from 0.7% at the end of 2005 to 10.4% as of September 30, 2014.

Broadband reached 4.5 million subscribers in 2013, representing an increase of 15.2% from 2012, according to MINTIC. By the end of 2013, 34.1% of Colombian households had access to broadband, and subscribers to ADSL networks and cable services represented 53.6% and 44.3%, respectively, of total broadband subscribers in Colombia, according to MINTIC. As of September 30 2014, 36.8% of Colombian households had access to broadband, and subscribers to ADSL networks and cable services represented 48.2% and 43.7%, respectively, of total broadband subscribers in Colombia, according to MINTIC. At September 30 2014, we had captured 19.2% of the broadband subscriber market. Our main competitors in the broadband Internet access business are Claro Colombia, Colombia Móvil, and ETB, each of which held a 33.0%, 25.5% and 11.3% market share, respectively, in September 2014, according to MINTIC.

The following graph presents the penetration levels of dedicated Internet access in Latin America:

Mobile Broadband Penetration (subscribers / population) as of December 31, 2013



Source: Global Fix and Mobile Forecast Q1 2014-Pyramid.

The table below presents the number of Internet subscribers in Colombia according to the type of access and the change for the periods indicated:

Fixed Dedicated Access (Broadband)	2012	2013	Change
Cable	1,577,542	1,990,756	26%
Clear Channel	1,884	19	(99)%
Fiber Optics	33,708	44,311	31%
Other Wireless	13,106	21,322	63%
Other	3	183	6,000%
Microwave Radio	6,734	9,193	37%
Satellite	3,341	3,613	8%
Wi Fi	20,162	13,288	(34)%
Wimax	2,187	4,441	103%
xDSL	2,240,087	2,410,552	8%
Total Fixed	**3,898,754**	**4,497,678**	**15%**
Mobile Datacard Subscribers	**1,270,581**	**1,411,004**	**11%**
Total	**5,169,335**	**5,908,682**	**14%**

Source: MINTIC.

Television

The subscription television industry in Colombia has experienced growth exceeding the growth in the telecommunications industry as a whole, as a result of various factors, including:

- 92.0% of Colombian households owning at least one television set as of 2013 according to the DANE;
- positive economic outlook resulting in the transition from illegal operators to legal operators offering a superior product and service;
- technological advances allowing for the expansion of network coverage;
- reduction in overall service prices as a result of bundling strategies; and
- a seasonal increase in subscribers as a result of the *Fédération Internationale de Football Association*, or FIFA, World Cup.

As of September 30, 2014, the Colombian subscription television industry had 4.9 million subscribers. The primary market operators are Claro Colombia, Colombia Móvil, DirecTV and us, with market shares of 43.3%, 21.0%, 19.8% and 8.2%, respectively, in terms of number of subscribers, according to the ANTV.

An important trend in the subscription television market consists of the OTT services that deliver content through the customer's broadband connection, without any revenue for the operator. The most popular OTT service is Netflix. In response, network operators such as Claro Colombia, DirecTV have their own OTT services, and we are expected to launch during the second quarter of 2015.

Regulation of the Colombian Telecommunications Industry

Historical Background

Prior to 1989, the Colombian government had a monopoly on the provision of telecommunications services in Colombia. Telecom was created in 1943 as a public utility with a mandate to provide telecommunications services to the public. Together with certain local government-owned operators, Telecom carried out and exercised the state monopoly over telecommunications services in Colombia.

As communications technologies evolved, changes in applicable laws allowed private entities to own and operate telecommunications networks and services in Colombia. Law 72 of 1989 and Decree-Law 1900 of 1990 reclassified telecommunications services in Colombia into basic services, broadcast services (television and radio), telematics and value-added services, special services and ancillary services. The provision of each of these services by a private entity required an authorization or a concession agreement executed with the Colombian government's telecommunications authorities, in accordance with the specific laws and regulations relating to each type of service.

Initially, fixed-line telecommunications landline service was a public utility service subject to the general regulatory framework for public utilities under Law 142 of 1994, and was subject to legal authorization for the provision of local fixed-line service and to a concession regime for long distance services. The mobile service was subject to a concession regime ruled by Law 37 of 1993 and the PCS service was subject to a concession regime ruled by law 555 of 2002. These concessions regimes where further converted into license regimes as a result of Decree 2870 of 2007, except for mobile and PCS services which were converted pursuant to Law 1341 of 2009. Decree 2870 of 2007 replaced the concession regime, allowing long-distance services to be provided by obtaining a special license from the Colombian Government. Law 1341 of 2009 established a general habilitation regime for mobile and PCS telecommunications services, which only required registration with the MINTIC. Under Colombian law, Information and Communications Technology, or ICT, includes the resources, tools, equipment, data programs, applications, networks and means that allow the compilation, processing, storage and transmission of information as voice, data, text, video and images. Law 1341 governs items such as the establishment and operation of networks, the provision of communications services, and the use of the radio spectrum. Although the provision of telecommunications services is technically still a public utility that regulated and supervised by the Colombian government, it is no longer subject to the general legal framework applicable to other public utilities.

General

Since the enactment of Law 1341, any telecommunications services provider that completes a registration procedure with MINTIC, is allowed to provide telecommunications services and operate networks (other than radio broadcast and television services) under a general habilitation license, or the General Habilitation License. To obtain a General Habilitation License, a telecommunications services provider must file a form including certain technical and corporate information to MINTIC. The information required to be provided varies according to the type of activity proposed to be undertaken. Rights to use the radio spectrum are not included in a general habilitation and must be obtained through a separate procedure described under "—Radio Spectrum and Pricing."

Telecommunications services providers that had obtained permits, authorizations, licenses from, and/or entered into concession agreements with, the Colombian government prior to the enactment of Law 1341 and the ICT regime were granted the right to continue to provide services under such prior permits, authorizations, concessions or licenses until its expiration.

Although the ICT regime allows private entities to provide telecommunications services, the Colombian government reserves the right to impose additional obligations on telecommunications service providers in exceptional circumstances relating to issues of national defense, emergencies, public safety, internal unrest, disaster or similar events. These additional obligations may include making networks and services available to the Colombian government at no cost, and/or the imposition of easements on telecommunications networks and infrastructure, among others.

Regulatory Entities

The following is a brief description of the principal regulatory entities in charge of the design, regulation, operation, surveillance and control of the ICT regime in Colombia:

MINTIC

MINTIC establishes the national policy for ICTs, manages the radio spectrum allotted to Colombia, regulates its use through the ANE, manages the use of the ".co" domain name, manages the national registry of networks and service providers, and establishes the fees to be charged to private entities for the use of radio spectrum and the provision of communications services.

ANE

The ANE is a special administrative unit related to MINTIC and was created under to Law 1341 and regulated by Decree 4169 of 2011. The ANE's purpose is to provide the required technical support to the MINTIC for the management, planning, surveillance and control of the radio spectrum. In this capacity, the ANE performs surveillance and control of the radio spectrum, designs radio spectrum management policies, initiates and carries out investigations relating to violations of regulations applicable to the use of the radio spectrum and imposes related sanctions and orders the ceasing of operations of unauthorized networks, as well as conducting seizures of equipment used in such activities.

CRC

The CRC was created by Law 142 of 1993, as amended, and is also a special administrative unit attached to the MINTIC. The purpose of the CRC is to promote competition within the ICT regime and prevent the abuse of a dominant position in the market, as well as to regulate the market for networks and communications services other than radio broadcast services. The CRC is empowered to issue regulations, including, but not limited to, those relating to:

- antitrust;
- interconnection, access, and use of essential facilities;
- bundled telecommunications and television services;
- compensation for the access and use of networks and infrastructure;
- wholesale prices;
- service quality standards;
- invoicing and collection of payment for the provision of networks and services; and
- dispute resolutions among services providers.

FTIC

The FTIC is a special administrative unit attached to the MINTIC. Its purpose is to finance plans, programs and projects aimed at facilitating universal access to information and communication technologies by all the inhabitants of Colombia. The FTIC also financially supports the purposes and activities of the MINTIC and the ANE, including funding the improvement of the MINTIC's and the ANE's administrative, technical and operating capacity.

ANTV

The ANTV was created under Law 1507 of 2012 to carry out state policy in connection with television in general as a public service. In addition to implementing television public policy, the ANTV is in charge of adjudicating and granting the concession contracts or licenses for the provision of television services, including broadcast, cable, and direct to home television services, and protecting the interests of television services consumers, among other functions and powers.

The ANTV is responsible for the allocation of television frequencies in general and the frequencies previously allocated by the ANE for the operation of television service.

SIC

The SIC has been granted powers by the Colombian government to oversee consumer protection in the provision of telecommunications services (with the exception of television services, which are under the scope of ANTV's authority). Accordingly, the SIC may initiate administrative investigations for breaches of applicable regulations pertaining to users' rights.

Radio Spectrum and Pricing

Granting of Radio Spectrum to Services Providers

Pursuant to the Colombian constitution, radio spectrum is a public resource which cannot be transferred to or acquired by any person, and shall be subject to no encumbrances. Furthermore, the ICT regime does not confer rights to use the radio spectrum. Instead, Law 1341 requires a prior and express permit granted by MINTIC in order to use any radio spectrum.

In Colombia, permits for the use of the radio spectrum are, in most cases, granted solely through a public procurement process in accordance with Law 1341 and Decree 4392 of 2010. In the case of permits relating to the use of radio spectrum for all types of services except international mobile telecommunications and broadcast services (including any radio communication services in which the transmissions are intended for direct reception by the general public, as defined by the International Telecommunications Union), applicable rules are set forth in (i) Resolution 2118 of 2011, or Resolution 2118, and Resolution 1588 of 2012, or Resolution 1588, each of which are allocated in accordance with the general rules of Resolution 1588 and of Resolution 2118, and the particular terms and conditions of each auction process. Under Resolution 2118, MINTIC is required to first determine the availability of radio spectrum and then publicly summon interested parties. This summoning must contain information on the type of radio spectrum to be awarded, the specific frequencies and bandwidth available, the relevant geographic location, and the authorized uses and applications. So long as they have not exceeded the limits for radio spectrum assignment as described under "—Antitrust" below, all interested service providers may submit a letter of interest to MINTIC. MINTIC then makes a determination whether there are sufficient interested parties to justify opening the public procurement process for the radio spectrum to be offered.

If MINTIC decides to initiate the process, the interested parties are then required to submit their applications within the established term. MINTIC evaluates each and all of the applications to verify due compliance with regulatory and legal requirements. Following the verification process, MINTIC may grant permits for the use of the offered radio spectrum assuming that no applications coincide for the same frequencies and for the same area of coverage. If this is the case, then MINTIC determines whether it can assign frequencies that are technically equivalent among the applicants or arrive at an equitable distribution thereof among the applicants. If applicants decline MINTIC's proposal for distributing the allocated radio spectrum, then MINTIC must assign the relevant radio spectrum to applicants that successfully demonstrate their dependence on the radio spectrum for the provision of telecommunications services to the public. The use of the radio spectrum for the provision of services to the public shall prevail over the use of radio spectrum for private purposes. If similarities exist among applicants with respect to the same radio spectrum, then MINTIC will determine the final award through a lottery. Radio spectrum permits granted by MINTIC are awarded for a maximum term of ten years with the possibility of renewal for an equal term.

Notwithstanding the above, Law 1341 provides an exception to the general rule of assignment through a public procurement process. Accordingly that MINTIC can directly assign a portion of the radio spectrum to a party on a temporary basis whenever (i) such assignment is required in order to guarantee continuity of service, (ii) the party that requests a direct allocation is in full compliance with all of its obligations with the FTIC, and (iii) the concession, license or authorization for the provision of telecommunications services in Colombia issued to such party has not been revoked.

In any case, the use of radio spectrum gives rise to the payment of fees to the FTIC and the MINTIC depending on the amount of radio spectrum granted and effectively used, and is also subject to an additional payment depending on the number of potential users, the expansion plans of the applicant, and the availability (offer and demand of radio spectrum).

Pricing and Payments to the FTIC

Companies that have a General Habilitation License are required to pay quarterly regulatory fees to the FTIC in accordance with MINTIC rules. Such fees are currently set at a fixed amount of 2.2% of the gross income received by the telecommunications services provider for the provision of its network and telecommunication services, excluding terminals. In addition, a fee of 0.7% of gross revenues from network usage and mobile telecommunications services provided over the mobile network for the use of radio spectrum, in accordance with Resolution 597 of 2014.

The compensation payable for the use of radio spectrum other than for international mobile telecommunications is determined by MINTIC in Decree 1161 of 2010, Resolution 290 of 2010, as amended, and Resolution 2877 of 2011, as amended. To calculate the amount payable, MINTIC must take into account among other criteria, the assigned bandwidth, the number of potential users, the availability of the service, any expansion plans, geographic coverage, demand for the radio spectrum and its availability, and any other technical parameter that the MINTIC and the authorities may find useful to determine the amounts that the FTIC would receive as a compensation for the use of the radio spectrum. Companies that provide telecommunications services are also required to pay to the CRC up to 0.1% of the gross income received from telecommunications services provided, to compensate for the regulatory services provided by the CRC.

Mobile Telecommunications Frequency Bands

The Colombian National Table of Frequency Attributions (*Cuadro Nacional de Atribución de Bandas de Frecuencias*), adopted by the MINTIC and last revised in January 2014, specifies the frequencies that can be used in the operation and supply of telecommunications services, and regulations issued by the ANE set the ranges and the technical characteristics in which specific telecommunication services may be provided.

The following tables show the radio spectrum assigned to each telecommunications service provider by frequency bands.

800 MHz

Service Provider	**Assigned Frequency**	**Band**
Claro Colombia	824 MHz – 835 MHz paired with 869 MHz – 880 MHz 845 MHz – 846,5 MHz paired with 890 MHz – 891,5 MHz	850 MHz

1900 MHz

Service Provider	**Assigned Frequency**	**Band**
Claro Colombia	1852,5 MHz – 1860 MHz paired with 1932,5 MHz – 1940 MHz 1877,5 MHz – 1885 MHz paired with 1957,5 MHz – 1965 MHz	1900 MHz
Colombia Móvil (under the *Tigo* brand)	1850 MHz – 1852,5 MHz paired with 1930 MHz – 1932,5 MHz 1860 MHz – 1865 MHz paired with 1940 MHz – 1945 MHz 1890 MHz – 1910 MHz paired with 1970 MHz – 1990 MHz	1900 MHz

2500 MHz

Service Provider	**Assigned Frequency**	**Band**
Colombia Móvil (under the *Une* brand)	2500 MHz – 2525 MHz paired with 2620 MHz – 2645 MHz	2.5 GHz
Claro Colombia	2525MHz - 2540 MHz paired with 2640MHz – 2660MHz	2.5 GHz
DirecTV	2555 MHz - 2570 MHz paired with 2675MHz – 2690 MHz 2575MHz - 2615 MHz	2.5 GHz

AWS		
Service Provider	**Assigned Frequency**	**Band**
ETB-Colombia Móvil Consortium	1740 – 1755 MHz paired with 2140 – 2155 MHz	AWS
Avantel	1710 – 1725 MHz paired with 2110 – 2125 MHz	AWS

Interconnection

Resolution 3101 of 2011 issued by the CRC establishes the legal framework for the access, use and interconnection of telecommunications networks in an environment of technological convergence. All networks and telecommunications services providers have the right to request and to be provided with interconnection from other telecommunications services providers with the purpose of guaranteeing networks, services and applications to function across platforms. However, telecommunications services providers that allow other telecommunications services providers to connect to their networks are entitled to an interconnection fee. Network operators are free to determine this fee among themselves, subject to the limits set by the CRC and the principle of efficient costs. If telecommunications services providers are unable to reach an agreement, the CRC may impose the interconnection terms in accordance with applicable regulations. The limits on interconnection fees set by the CRC have been decreasing in recent years for both voice and SMS services. In addition, Resolution 4458 of 2014 grants content providers and SMS applications the right to access the network and to charge for such access in accordance with the provisions of Resolution 3501 of 2014.

Infractions and Sanctions

The MINTIC has the authority to impose sanctions, including warnings, fines, suspension of activities and termination of concessions, licenses, permits or authorizations. Any sanction imposed by the MINTIC is subject to judicial review. Law 1341 specifies certain causes for the termination of a license, permit or authorization, including, among others:

- breaches of confidentiality with respect to communications;
- failure to pay required fees to the FTIC, as set forth in the respective license, permit or authorization;
- unauthorized use of radio spectrum;
- failure to comply with quality standards of service as set forth by applicable regulations;
- failure to comply with certain technical requirements; failure to comply with standards quality of service as set forth by applicable regulations; and
- any practice that adversely affects the environment, the radio spectrum, rights of other telecommunications services providers or public health.

Consumer Protection Laws

Pursuant to Law 1341, the CRC has issued regulations with respect to consumer protection. The main rules are provided in Resolution 3066 of 2011 as amended, or the general telecommunications consumer protections framework. Resolution 3066 sets forth the rights and duties of the users and telecommunications services providers, including fixed-line and mobile telephone, Internet and data services. In particular, telecommunications services providers are required to, among others:

- provide adequate information to users about, among other aspects, the applicable terms and conditions of contracted services, prices, invoicing methods, and the users' rights;

- include specific provisions in the user's service agreements, such as invoicing policies, price of the services and form of payment and conditions for assignment and termination of the services contract;

- comply with a strict invoicing and pricing regulatory framework; and

- establish a consumer complaint system including the means to receive and process submitted complaints, both online and physical.

The SIC has been granted powers by the Colombian government to oversee consumer protection in the provision of telecommunications services. Accordingly, SIC may initiate administrative investigations for breaches of applicable regulations pertaining to users' rights. The ANTV is the competent entity in the case of television services.

Antitrust

As a result of the exercise of MINTIC's powers over the radio spectrum, regulations have been issued to impose limits on the maximum amount of radio spectrum that a single operator of certain services or using a certain range of frequencies can be awarded. See "—Radio Spectrum and Pricing." Pursuant to Decree 2980 of 2010, the maximum amount of radio spectrum for the provision of mobile telecommunications services was set at 85 MHz per provider for high bands (between 1710 MHz and 2690 MHz) and 30 MHz for the low bands (between 698 MHz and 960 MHz).

In addition, the CRC is in charge of promoting fair competition between the service providers and regulating the market, thus it is empowered to issue regulations designed to protect competition. The CRC is also empowered to intervene in the telecommunications market by issuing general or special regulations whenever there is monopolistic conduct regarding tariffs, interconnection, access to essential installations and infrastructure, and to prevent and correct market failures. Some of the scenarios in which the CRC may intervene in the market to guarantee fair competition environment include:

- defining relevant markets in the telecommunications sector and identifying companies with dominant position in those markets for purposes implementing market-specific regulations to promote fair competition;

- requiring telecommunications services providers to submit periodic information concerning their market share and technical and operational information;

- regulating prices in the relevant markets in the fixed and mobile voice services;

- specifying essential telecommunications facilities and the conditions for access thereto, as well as networks interconnection; and

- regulating assignment and use of numbering and signaling resources.

Pursuant to Colombian antitrust laws, a market participant may be deemed to have a "dominant position" if it has the ability to set the conditions of a market, regardless of the ability of consumers or competitors to contest its actions. There is market share threshold at which dominance is present or presumed. Furthermore, Colombian law establishes that if a market participant (including in the telecommunications services market) has a dominant position, then it may be prohibited from undertaking certain actions that would be permissible to participants with a smaller market share. The CRC has express powers to determine if a company in the telecommunications sector has a dominant position, and subsequently require them to comply with special obligations, as determined on a case by case basis. Although the CRC has the responsibilities outlined above, SIC is the only agency authorized by Colombian law to investigate, sanction and impose penalties for antitrust breaches.

Potential Regulatory Developments

The CRC has disclosed its regulatory agenda for 2015, which includes the following projects:

- review of the consumer protection regulations;

- review of the regulatory conditions for access to long-distance fixed-line services;

- review of the quality standards regime;

- define "broadband" from a regulatory perspective and enact regulations for the deployment of infrastructure associated thereto;

- review Internet and data markets;

- revise the regulatory framework for MVNO's;

- regulate frame transmission capacities of fiber optic networks as an essential installation for communications services subject to interconnection regulations; and

- analyze telecommunications bundling models and practices to detect and prevent market failures.

For more information on recent regulatory developments, see "Risk Factors—Risks Relating to Our Business and the Colombian Telecommunications Industry."

Regulation of the Colombian Television Industry

General

As described above, television services are not included in the general habilitation system established pursuant to the ICT regime and Law 1341. The provision and operation of television services in Colombia are regulated by Law 182 of 1995, Law 335 of 1996, Law 680 of 2001 and Law 1507 of 2012. The television industry laws categorize the industry into: (i) free-to-air broadcast television and (ii) subscription television service (including cable television and satellite television).

As a general rule, the provision of television services in Colombia requires a license or a concession agreement executed with the ANTV. As of 1998, free-to-air broadcast television services could be provided by private companies selected after a public bidding process, pursuant to Law 182 of 1995. In 1997, the CNTV, as the predecessor of the ANTV, granted two concession contracts for the provision of broadcast television service at the national level. The CNTV also regulated the provision of the free-to-air broadcast television service at the local level, and the provision of subscription television services. Providers of television services at both the national and the local level are required to comply both by contract and by way of general regulation with different content, programming, technical, tariffs, and operational obligations.

In 1996, there were 10 subscription television providers in Colombia. By 1999, through the granting of concessions between 1996 and 1999, the number of subscription television providers had increased to 106. However, this number was reduced to 59 licenses by 2008 and 49 licenses by 2010, due to certain corporate reorganizations and the implementation of the Normalization Plan (*Plan de Normalización*), which was implemented between 1996 and 2002, for the purpose of standardizing subscription television and to allow the CNTV to collect fees from subscribers and protect copyrights.

In 2008, the CNTV attempted to grant a third national free-to-air broadcast television concession, but the public bidding process was suspended and afterwards terminated pursuant to a judicial decision from the Colombian Council of State (*Consejo de Estado de Colombia*), the highest administrative court in Colombia, which decided that the CRC must first conduct a market study through April 2015 before assigning frequencies to a third free-to-air broadcast channel. As a result, a third free-to-air broadcast channel is expected to be awarded between 2015 and 2016.

Regulatory Entities

In accordance with Law 1507 of 2012, the key governmental agencies charged with the design, regulation, operation, surveillance and control of the television industry in Colombia are described below.

ANTV

In connection with the ICT regime, Law 1057 granted the ANTV to carry out state policy in connection with television in general as a public service. In addition to implementing television public policy, the ANTV is in charge of adjudicating and granting the concession contracts or licenses for the provision of television services (including broadcast, cable, and direct to home television services) and protecting the interests of television services consumers, among other functions and powers. The ANTV is responsible for the allocation of television frequencies in general and the frequencies previously allocated by the ANE for the operation of television service.

CRC

In addition to its powers in connection with the ICT regime, Law 1507 of 2012 granted the CRC the power to, among other things, regulate the operation and provision of television services, as well as set forth the conduct that constitutes a breach to the rights of viewers or affects free competition.

SIC

With respect to the television sector, SIC is in charge of, among other functions:

- investigating and imposing sanctions on television services providers for the violation of the antitrust regime;

- authorizing the merger among commercial broadcast television providers holding concessions for public national free-to-air services; and

- issuing regulations for bundled telecommunications and television services.

ANE

In addition to the functions mentioned above in connection with the ICT regime, the ANE has the following functions with respect to television services:

- issuing regulations for the use of the radio spectrum used by television services providers of incidental signals (*señales incidentales*);

- regulating the use of the radio spectrum allocated to television services in cooperation with the ANTV, including allocation of its use;

- defining technical standards for networks;

- designing and implementing research, knowledge and education programs with respect to the spectrum;

- determining the radio spectrum bands intended for television services and record-keeping with respect to frequencies that can be used to provide television services; and

- taking measures when there is an illegal occupation of the radio spectrum with respect to the provision of television services.

Pricing

Law 182 of 1995 sets forth the general parameters within which the ANTV can set the amounts that concessionaires need to pay as consideration for the awarding of their concessions, the use of the radio spectrum, and the economic exploitation of the concession. Such parameters include:

- geographic coverage;
- population and the per capita income in the area to cover;
- amounts required to recover the costs of the provision of the service;
- benefits for the concessionaires;
- additional considerations that would be necessary to strengthen public television services providers; and
- equal treatment among concessionaires.

Regulations currently in force provide that subscription television service providers, including particularly satellite subscription television service providers, must pay monthly regulatory fees to the ANTV in an amount equal to (i) the number of subscribers during the previous month multiplied by (ii) the monthly tariff per subscriber as set forth by the ANTV.

Infractions and Sanctions

The ANTV is responsible for the regulation, direction, management, imposing of sanctions and control of television services in Colombia. According to Law 182 of 1995, the ANTV has the authority to impose sanctions, including warnings, fines, suspension of activities, and termination of the relevant concession. Law 182 of 1995 specifies certain causes for the imposition of sanctions, such as:

- breaches of the legal and regulatory regimes pertaining to protection of competition, media pluralism and prevention of monopolistic practices;
- participation in activities or arrangements, which (i) are contrary to free and fair competition, (ii) result in the concentration of ownership or informational power in television services, (iii) result in a dominant market position or (iv) constitute monopolistic practices in the use of the radio spectrum and the provision of the television service;
- breach of the constitutional and legal provisions which specifically protect the rights of families and children;
- unauthorized reception or distribution of the satellite television signals; and
- failure to comply with the obligations for television service providers established in applicable laws and regulations.

Consumer Protection Laws

The ANTV has the power to protect the interests of consumers of television services. The ANTV issued regulations in 2006, which provided the general framework for subscription television service agreements, as well as the extent of the responsibility of subscription television services providers, the general framework for the pricing of the services and applicable invoicing rules. In the absence of specific rules, general Colombian consumer protection laws apply to television services.

BUSINESS

Overview of Our Company

We are a full-service telecommunications provider offering a range of integrated telecommunications services including fixed-line, mobile, data transmission (including broadband access and value-added services) and subscription television services throughout Colombia. We believe we are the second-largest integrated fixed-line and mobile telecommunications provider in Colombia in terms of subscribers and revenues, according to information available from the MINTIC. As of September 30, 2014, we operated the largest fixed-line network in Colombia in terms of geographical coverage, according to information available from MINTIC. We are the result of the merger of TEMCO with and into CT, which became effective on June 29, 2012. We are an indirect subsidiary of Telefónica, the world's sixth-largest telecommunications company in terms of revenues as of December 31, 2013, according to Bloomberg. Our relationship with Telefónica benefits us through the use of Telefónica's internationally recognized *Movistar* brand, present in 14 countries in Latin America, and through access to Telefónica's industry experience, economies of scale, synergies, strategic initiatives and technical expertise. We offer all of our telecommunications services under the *Movistar* brand. The Republic of Colombia, acting through the MHCP, holds 30% of our capital stock.

We serve residential customers, small, medium and large companies and governmental agencies. As of December 31, 2014, we had 12,842,498mobile subscribers, 1,461,031fixed lines in service, 959,175Internet subscribers and 415,977 TV subscribers. As of September 30, 2014, we had a market share in Colombia of 23.5% for mobile services, 20.3% for fixed-line services, 19.2% for internet broadband services and 8.2% for subscription television services, according to the MINTIC, the SIC and the ANTV.

As of December 31, 2014, we had total assets of COP$6,964,839million (U.S.$2,911.2 million), with total equity of COP$973,420million (U.S.$406.9million). In 2014, we had net revenues of COP$4,639,999 million (U.S.$1,939.4million), net income of COP$11,314 million (U.S.$4.7 million), EBITDA of COP$1,395,017 million (U.S.$583.1 million) and Adjusted EBITDA of COP$1,687,469 million (U.S.$705.3 million). In 2013, we had net revenues of COP$4,200,775 million (U.S.$1,755.8 million), EBITDA of COP$1,293,171 million (U.S.$540.5 million), Adjusted EBITDA of COP$1,441,634 million (U.S.$602.6 million) and net loss of COP$262,013 million (U.S.$109.6 million).

Mobile Telecommunications Services

We offer mobile voice and data services under a variety of rate plans to meet the needs of different user segments. Our rate plans are either pre-paid, where the subscriber pays in advance for a specified volume of use over a specified period, or post-paid, where the subscriber is billed monthly for usage in the previous month. As of September 30, 2014, pre-paid and post-paid subscribers represented approximately 74.0% and 26.0%, respectively, of our total mobile services subscribers, and we had the largest percentage of post-paid subscribers to total mobile subscribers among telecommunications providers in Colombia, according to information available from MINTIC. In2014 and in 2013, our ARPU from pre-paid subscribers was COP$5,098 and COP$4,895, respectively, and our ARPU from post-paid subscribers was COP$50,508 and COP$50,252 respectively.

Through our mobile telecommunications business, we provide numerous data services, including messaging services, wireless Internet services and value-added services. Our messaging services, which have experienced significant traffic growth in recent years, include SMS and MMS. Our wireless Internet services include mobile broadband, which allows our customers to access the Internet from a laptop or desktop computer using USB broadband cards, and SIM cards to connect tablets or other mobile devices to our wireless network. Our value-added services include e-mail and entertainment content downloads. We hold licenses to operate wireless networks in all geographic regions in Colombia using both the 850 MHz and 1900 MHz radio spectrums to operate our 2G and 3G networks, and the AWS band (1710 to 1755 MHz paired with 2110 to 2155 MHz) to operate our 4G network. Our mobile services are based on GPRS, EDGE, UMTS, HSPA, HSPA+ and LTE technologies.

Fixed-Line Telecommunications Services

Our fixed-line telecommunications business includes domestic and long-distance telephone services, network usage services (interconnection), high-speed data transmission and Internet services and public telephones. As of September 30, 2014, we operate the largest fixed-line network with the highest voice and broadband coverage in the country, present in 79.7% and 32.0%, respectively, of Colombia's 1,121 municipalities, according to information available from MINTIC. As of December 31, 2014, we had 1,461,031 fixed lines in service, and as of September 30, 2014, we had a 20.3% market share, according to information available from MINTIC. We offer a variety of high-speed data transmission services, including broadband services, primarily utilizing ADSL2+ technology. As of December 31, 2014, we had approximately 959,175 Internet subscribers, and as of September 30, 2014, we had market share of 19.2% according to information available from MINTIC.

We also own and operate a nationwide fiber optic network, consisting of approximately 11,135 km of optical fiber as of December 31, 2014. In addition, we have an IP MPLS core network that utilizes Internet access technologies such as broadband ADSL2+ and GPON for our fixed-line operations. We have access to five international submarine connection points located in the Atlantic Ocean, two of which are landing points

Subscription Television Services

We offer satellite subscription television services, through which we offer a selection of 111 regular channels and 28 HD channels. We offer basic subscription packages as well as a variety of premium packages, allowing subscribers to tailor the content to their individual preferences. We also offer satellite subscription television as part of an integrated package of services designed to attract and retain customers seeking to subscribe to a single provider for all of their telecommunications needs. As of December 31, 2014, we had approximately 415,977 subscription television subscribers, and according to information available from MINTIC, a market share of 8.2% as of September 30, 2014.

Telecommunications Industry in Colombia

Colombia's telecommunications sector has experienced a high rate of growth consistent with the expansion of telecommunications services around the world. In recent years, the rate of revenue growth in the Colombian telecommunications industry has exceeded the rate of growth of Colombia's GDP. From 2007 to 2013, the telecommunications sector accounted for more than 3.1% of Colombia's GDP, according to the DANE, and Colombia's telecommunications sector grew at a compounded annual rate of 7.3% from 2000 to 2013 according to the DANE, compared to a 4.3% CAGR of Colombia's GDP during the same period.

Although the Colombian telecommunications industry is highly concentrated among a few providers, it remains open to competition and new market participants. For example, DirecTV and Avantel entered the mobile services sector in 2013 through a 4G network auction held by the Colombian government.

Over the last decade, the Colombian telecommunications market has undergone consolidation through mergers, acquisitions and privatizations of government-owned service providers. A recent example of this trend is the merger of UNE EPM, a fixed-line and internet services provider operating under the *Une* brand, into Colombia Móvil, a subsidiary of Millicom International operating under the *Tigo* brand, in August 2014. See "The Colombian Telecommunications Industry—The Colombian Mobile Telecommunications Industry—Major Competitors in Mobile Telecommunications in Colombia—Colombia Móvil."

Other than our company, which operates under the *Movistar* brand, the main providers of telecommunications services in Colombia are (i) Claro Colombia, a subsidiary of América Móvil, which operates under the *Claro* brand, and (ii) Colombia Móvil, which operates under both the *Tigo* and *Une* brands. We estimate that we, Claro Colombia and Colombia Móvil generated 96.9% of the revenues for the Colombian mobile services sector as of September 30, 2014, divided in 20.3%, 58.6% and 19.1%, respectively. In addition to the main providers, the three main MVNOs operating in Colombia are Virgin Mobile, UFF and Éxito. Virgin Mobile uses our network, while UFF, ETB and Éxito each use Claro Colombia's network. MVNOs accounted for 4.5% mobile subscriber market share as of September 30, 2014, according to information available from MINTIC.

The table below provides information relating to our market share, as compared to that of our competitors, in the different telecommunications segments in which we operate:

	Fixed line	Mobile (1)	Television	Internet
	(market share in subscribers)			
Movistar	20.3%	23.5%	8.2%	19.2%
Claro	20.4%	54.7%	43.3%	33.0%
Tigo and Une (on a combined basis) (2)	21.5%	16.9%	21.0%	25.5%
ETB	20.1%	0.0%	0.3%	11.3%
DirecTV	0.0%	0.0%	19.8%	0.0%
Others	17.6%	4.9%	7.4%	10.9%
Total subscribers (in thousands)	7,220	53,584	4,917	4,926
Penetration (3)	54.0%	112.0%	36.8%	36.8%

Source: MINTIC and ANTV.

(1) Includes voice and data services.

(2) Merged in August 2014.

(3) Penetration for fixed-line, television and Internet services is calculated by dividing the total number of subscribers by the total number of households in Colombia according to the DANE. Penetration for mobile services is calculated by dividing the number of total subscribers by the total population in Colombia, according to the DANE.

The growth of the mobile services sector and Internet services have been the key drivers of growth in the Colombian telecommunications industry as a whole. The penetration of Internet and broadband access services in Colombia has significantly increased in recent years from 2.8% of households in 2005 to 34.1% in 2013, according to information available from MINTIC, which we believe is primarily due to increased availability of personal computers in Colombia, increased competition among Internet providers and the efforts of the Colombian government to promote the access and use of Internet technologies.

The penetration of mobile services during the same period increased from 51.0% in 2005 to 106.0% in 2013, according to information available from MINTIC and SIC. The penetration rate for mobile services is expected to increase by 12.3% from 2011 to 2018, according to Pyramid Research. Penetration rates can reach more than 100.0% due to individuals using more than one phone and *smishing*. The increase in mobile penetration and competition from other telecommunication services has led to traffic migration from fixed-line traffic to mobile traffic and the substitution of mobile services for fixed-line services. In addition, penetration in the subscription television market grew steadily from 14.0% in 2006 to 35.6% in 2013, according to the ANTV.

For more detailed information regarding the Colombian telecommunications industry, see "The Colombian Telecommunications Industry" elsewhere in this offering memorandum.

Our Strengths

We believe the following are our competitive strengths:

Integrated and diversified product and service offerings. We are the second-largest integrated fixed-line and mobile telecommunications provider in Colombia in terms of subscribers and revenues based on information available from the MINTIC, the ANTV and SIC. We offer our customers a broad range of telecommunications products and services under the *Movistar* brand, including fixed-line telecommunications, mobile telecommunications, broadband services and television subscription in integrated service packages. Our operations allow us to focus on our customers by offering integrated service packages designed to meet their needs, combining fixed-line, mobile, broadband and other services into a single package. We believe the offering of integrated service packages and the consolidation of our mobile services offerings result in greater customer loyalty and, consequently, a decrease in churn rates. As an integrated service provider, we also benefit from synergies that lead to reductions in operating costs and investments.

Diverse spectrum portfolio. We have a diverse and complete low band portfolio. We have licenses to use a total of 25 MHz in the 850 MHz band, 30 MHz in the 1900 MHz band and 30 MHz in the AWS band (1710 to 1755 MHz paired with 2110 to 2155 MHz). We believe our low band portfolio gives us an advantage in low traffic areas (such as rural zones), as low bands between 698 MHz and 960 MHz) have a better propagation rate than high bands (between 1710 MHz and 2690 MHz), allowing us to cover larger areas using fewer resources and less infrastructure.

In addition, we believe that we have a strong high band portfolio compared to our main competitors. We offer 4G services in the AWS band in the 1710 to 1755 MHz radio spectrum paired with the 2110 to 2155 MHz radio spectrum, which has a better propagation rate and lower installation costs than the 2500MHz band in which Claro Colombia operates. We also provide 2G and 3G services in both a low band (850 MHz) and high band (1900 MHz), as compared to Colombia Móvil, which only provides 2G and 3G services in a high band (1900 MHz).

Extensive network coverage and strong market share. We operate the largest fixed-line network in Colombia in terms of geographical coverage, and we had the highest voice and broadband coverage, representing 79.7% (as of December 31, 2013) and 32.0% (as of September 30, 2014), respectively, of the total municipalities in Colombia, according to information available from SIC and MINTIC. As of December 31, 2014, we also had an extensive mobile network, with 83.4% and 85.7% coverage for 2G wireless voice services, as measured by Colombia's population and total number of municipalities in Colombia, respectively, and 75.4% and 82.6% coverage for 3G wireless data services, as measured by Colombia's population and total number of municipalities in Colombia, respectively, according to internal estimates. We also have coverage along approximately 12,875 kilometers of Colombia's intercity highways, according to internal estimates. We are expanding our 3G coverage to match our 2G coverage, with 3G services currently available in 926 of Colombia's 1,121 municipalities. In addition, as of December 31, 2014, our LTE network had 30.3% and 6.7% coverage, also measured by Colombia's population and total number of municipalities, respectively, according to internal estimates. As of September 30, 2014, we had a market share of 20.3% of the total fixed lines in Colombia, 23.5% of the total number of mobile subscribers and 19.2% of the total number of Internet subscribers in service, based on information available from MINTIC.

Strong base of post-paid subscribers. The ARPU generated by subscribers to our post-paid plans is more than 10 times greater than that of our pre-paid subscribers. We believe that our ratio of post-paid to pre-paid subscribers is the highest among Colombian operators. Our ratio of pre-paid to post-paid customers was approximately 74.0% to 26.0% as of September 30, 2014, compared to 80.1% and 19.9%, respectively, for Claro Colombia, and 81.4% and 18.6%, respectively, for Colombia Móvil, according to information available from MINTIC. We have achieved this position through our practice of regularly encouraging pre-paid subscribers to migrate to our higher value post-paid plans. We use mobile packs, which are packages of additional minutes, to encourage recurrent spending by pre-paid subscribers, thereby creating habits that induce these subscribers to migrate from pre-paid plans to post-paid plans. We also work to identify pre-paid subscribers who may not have initially been able to qualify for a post-paid plan, but whose payment patterns and behaviors indicate that they can safely afford higher-value plans. Our strong base of post-paid subscribers contributes to our profitability.

Diversified revenue stream and revenue growth across several lines of business. We have increased our revenues in recent years through growth in our Internet broadband, data transmission, subscription television and mobile voice and data business segments, even as the market for fixed-line telecommunications services has contracted. For example, our net revenues from data transmission and subscription television segments grew from COP$644,463 million and COP$118,748 million, respectively, in 2013 to COP$698,746 million and COP$162,017million, respectively, in 2014, while net revenues from our mobile segment grew from COP$2,430,750 million in 2013 to COP$2,908,289 million in 2014. As of September 30, 2014, our Internet broadband network reached 363 municipalities in Colombia, representing 32.0% coverage based on municipalities served, according to information available from MINTIC. In addition, our high quality subscription television services have allowed us to capture a market share of 8.2% as of September 30, 2014 in just six years of operation, according to information available from MINTIC.

Diversified and strong distribution channels with specialized sales and service teams. We have developed an extensive distribution network consisting of 84 *Movistar* stores, 160 exclusive dealers and a broad network of non-exclusive retail outlets, reaching 1,024 points of sale as of December 31, 2014. We have seven call centers dedicated to servicing our existing and potential customers, which also engage in cross-selling efforts. In addition, 77 of our commercial dealers are focused on marketing our pre-paid mobile products, while 14 additional commercial dealers are focused on distributing our pre-paid cards and marketing recharges of pre-paid phones. We continuously perform training and evaluation programs for the personnel in our agencies in order to maintain a high level of service quality. We also have a specialized corporate sales group with 262 salespeople to service the needs of our SME clients. Our largest corporate clients are serviced by a specialized direct sales team with industry-specific knowledge to better serve their needs.

The* Movistar *brand. We believe the *Movistar* brand is among the most valuable brands in Latin America, with a presence in Argentina, Brazil, Chile, Colombia, Ecuador, Peru, Uruguay, Venezuela, Mexico and several countries in Central America, and is known for its high-quality mobile communications services, innovation, reliability, accessibility and dependability. All of our services are offered under the *Movistar* brand. While we benefit from Telefónica's uniform marketing and branding strategy across Spain and Latin America, we apply a customized marketing approach that is highly adapted to the Colombian market and local culture. For example, we have developed regional products and marketing campaigns tailored to the preferences of our customers in the north coast of Colombia, which focuses on our pre-paid mobile products. Our branding strategy also includes sponsoring activities that are widely followed by the population in Colombia, such as soccer and cycling, which contribute to the recognition of our brand. For example, we are one of the official sponsors of the Colombian national soccer and cycling teams, providing a high level of visibility, prestige and brand strength for *Movistar*.

Our relationship with Telefónica. We benefit from Telefónica's experience as a global telecommunications operator, especially in terms of strategic initiatives and technological innovation. As of September 30, 2014, according to internal estimates, Telefónica was the sixth-largest telecommunications company in the world in terms of revenues and the second largest European operator, providing telecommunications services in 21 countries to over 316 million subscribers. Given its global footprint, Telefónica actively participates in mobile telecommunications developments and deploys best practices and innovative solutions from one market across all of its markets. We also benefit from Telefónica's economies of scale. For example, Telefónica negotiates the supply of most of its handsets and hardware on a centralized basis for all of its subsidiaries, which we believe allows us to purchase equipment at lower prices than would otherwise be possible. In addition, we benefit from the use of the *Telefónica* brand, which we believe is recognized as a leading, experienced and reliable global telecommunications operator.

Experienced management and talented employees. We are led by a seasoned management team with a proven execution track record and an average of 15 years of experience in the telecommunications industry. We also have highly qualified engineers with significant experience and industry expertise. Additionally, our employees strive to provide excellent customer service and we are continuously implementing training and development programs. We support our employees with a positive working environment. Since 2012, we have been consistently ranked among the top three best places to work in Colombia in the category of companies with over 500 employees, according to the Great Place to Work ® Institute.

Focus on corporate governance. We operate our business pursuant to strong corporate governance standards which are based on value creation and protection for shareholders and investors. In 2014 we approved our new code of corporate governance which, among other things, provides for specific rules regarding conflicts of interest, establishes information disclosure requirements for shareholders and investors, and creates an office of investor relations. The principles set forth in our code of corporate governance are a fundamental part of our corporate culture and our business strategy, and we believe that our corporate governance practices follow, to the extent applicable, the highest corporate governance standards in Colombia, which correspond to those of the companies listed on the Colombian Stock Exchange (*Bolsa de Valores de Colombia*).

Our Strategy

Our specific strategic initiatives include:

Enhance customer satisfaction. We continue to implement strategies designed to achieve the highest levels of customer satisfaction. Our main priority is to improve the quality of our services and enhance our customers' experience with new products that respond to their preferences. We have identified three key areas of focus as part of our strategy to enhance customer satisfaction: (i) improve the customer experience by offering new products (including M2M services and on-demand television) and strengthening online service channels; (ii) increase the quality of our installation and maintenance services through continuous technological improvement in order to reduce customer claims and complaints and improve customer response times, as well as efficient deployment of our 3G and 4G networks to satisfy regulatory requirements; and (iii) improve our tools and streamline our processes. In addition, we continue to consolidate areas of management in both the mobile and fixed-line segments to provide customers with a more comprehensive and convenient service experience. By anticipating customers' future needs and providing customers with rapid assistance, we are able to offer a meaningful customer service experience. If our customers are satisfied, the demand for our brand, products and services will grow. High customer satisfaction thereby enhances our ability to increase customer loyalty and retention, while allowing us to attract new customers.

Develop innovative value-added services in the mobile segment. In addition to our mobile voice and data services, we are seeking to introduce innovative products and services to diversify our revenue stream and attract new customers. We intend to expand our current value-added service offerings, including access to premium entertainment content and location-based services for our mobile customers. We also intend to focus on acquiring additional spectrum capacity to increase our capabilities, so that we may continue to provide our customers with advanced technological and differentiated service offerings. Furthermore, by expanding our ability to bundle several telecommunications services together, including mobile Internet and premium subscription television services, into a convenient package for our customers, we believe that we can continue to successfully attract more clients through the use of our cross-selling strategies and the expansion of our mobile broadband and mobile browsing products and services.

Maintain our leadership in innovation. We intend to maintain our focus on developing and providing a wide range of digital services to our corporate clients, including integration services, internal and external business communications, management of network systems, IT workstations, business continuity, network and sector applications and security services, and we believe we are well positioned to become the market leader in this segment. We are also adopting an innovative marketing strategy to increase our market share in the mobile voice segment. For instance, we encourage customer loyalty through the use of "friends and family" plans, whereby customers are able to achieve cost savings by purchasing additional lines. In addition, we offer promotions in connection with our pre-paid plans to attract new customers.

Enhance our financial strength. As of December 31, 2014, our total outstanding indebtedness (which corresponds to our financial obligations and bonds and securities) amounted to COP$4,060,076 million, consisting of COP$352,278 million of short-term indebtedness, including the current portion of long-term indebtedness (or 8.7% of our total indebtedness), and COP$3,707,798 million of long-term indebtedness (or 91.3% of our total indebtedness). As of December 31, 2014, the average term of our indebtedness was 4.6 years. Since 2012, we and our shareholders have implemented a series of measures to improve our financial condition, which included the successful restructuring of the PARAPAT Payment Obligations and the completion of the TEMCO Merger, which resulted in a significant decrease of our payment obligations under the PARAPAT Agreement. In 2012, we also issued our U.S.$750.0 million 5.375% senior notes due 2022, the proceeds of which were used to repay our short-term indebtedness, and renegotiated the terms of a significant portion of our outstanding indebtedness. This allowed us to extend the average term of our indebtedness from 1.8 years as of June 30, 2012 to 6.7 years as of December 31, 2012. We believe our improved debt maturity profile will enhance our ability to continue accessing the local capital markets to finance our working capital needs.

In addition, as part of our financial strategy, we seek to avoid currency mismatches through the use of hedging instruments. As of December 31, 2014, COP$2,554,166 million (COP$2,369,362 million net of exchange rate hedging instruments related to our financial indebtedness) of our total outstanding indebtedness was denominated in U.S. dollars, of which COP$205,404 million (COP$165,306 million net of exchange rate hedging instruments related to our financial indebtedness) was short-term indebtedness, including the current portion of long-term indebtedness, and COP$2,348,762 million (COP$2,204,056 million net of exchange rate hedging instruments related to our financial indebtedness) was long-term indebtedness. As of December 31, 2014, we had entered into hedging agreements in respect of 100.0% of our U.S. dollar-denominated financial indebtedness. Our total outstanding indebtedness net of exchange rate hedging instruments related to our financial indebtedness as of December 31, 2014 was COP$3,875,272 million. The notes offered hereby are expected to received 100.0% equity treatment under IFRS, therefore, they will not be deemed to be financial indebtedness for IFRS accounting purposes. We intend to continue using derivative instruments to mitigate our exposure to foreign exchange and, to a lesser extent, interest rate market risks.

Maintain high efficiency and cost controls. We intend to continue pursuing initiatives to increase the efficiency of our internal processes in order to control our costs and improve the quality of our services. As part of the Telefónica group, we intend to continue to take advantage of shared services on a global level to benefit from gains in economies of scale and operating synergies. For example, we derive benefits from the economies of scale that Telefónica Global Services generates when it conducts global negotiations with providers, resulting in significant savings for each of the members of the Telefónica group. To maintain cost control, we continuously perform budget controls through weekly meetings of our operating expenditures and capital expenditure committees; additionally we perform daily general budget controls. For instance, our costs and expenses as a percentage of our operating revenues (before PARAPAT Payment Obligations) have improved from 66.3% in 2012 to 65.8% in 2013 and to 63.8% as of December 31, 2014.

In 2014, the Telefónica group initiated a global transformation program to simplify its operational model. This program seeks to maintain current operational levels with fewer resources, focusing on segments which are a priority to our customers. As part of Telefónica's initiative, we have identified multiple areas for potential improvement in Colombia, including the efficiency and capability of our networks, of our IT systems and our business model.

First-time Adoption of IFRS

Beginning on January 1, 2015, we are required to prepare our financial statements in accordance with IFRS, which differs in certain material respects from Colombian GAAP. For a discussion of certain significant differences between Colombian GAAP and IFRS, see "Annex A – Summary of Certain Significant Differences Between Colombian GAAP and IFRS." The adoption of IFRS will require certain material changes to our financial statements. In particular, under IFRS, we will be required to recognize as liabilities on our balance sheet all PARAPAT Payment Obligations, which are not currently recognized as liabilities for Colombian GAAP purposes. As of December 31, 2014, the net assets and financial liabilities related to the PARAPAT Agreement amounted to COP$933,380 million and COP$3,972,797 million, respectively. Recognition of our PARAPAT Payment Obligations as liabilities on our balance sheet, as well as other adjustments in our financial statements as a result of the adoption of IFRS, would result in negative stockholders' equity as of December 31, 2014 and at the date of IFRS adoption, which could trigger a mandatory dissolution proceeding under Article 457 of the Colombian commercial code due to our shareholders' equity representing less than 50% of our share capital. The existence of such dissolution event would be verified on the date our general shareholders' meeting approves our audited financial statements for the relevant fiscal year for which such net worth is reflected. Under Colombian law, we would then have an 18-month cure period during which our shareholders may adopt any measures necessary to increase our shareholders' equity to a level of at least 50% of our subscribed capital stock. See "Risk Factors—Risks Relating to Our Business and the Colombian Telecommunications Industry—We expect that our adoption of IFRS will result in stockholders' equity of less than 50% of our capital stock, which could trigger a mandatory dissolution proceeding under Colombian law."

We expect that the negative effect of our recognition under IFRS of all PARAPAT Payment Obligations as a liability on our balance sheet will be partially offset by the effect of (i) our recognition of net assets related to the PARAPAT Assets on our balance sheet which amounted to COP$933,380 million as of December 31, 2014, (ii) our recognition of a portion of net tax credits as deferred taxes we estimate could be recoverable, which amounted to COP$1,031,710 million, as of December 31, 2014, and (iii) our exercise of the option available to entities adopting IFRS for the first time, to measure certain of our land and buildings at their fair value and using that fair value as the deemed cost of such property, plant and equipment, which will result in an increase of COP$508,538 million in the recorded value of our net assets as of December 31, 2014, as compared to the values recorded pursuant to Colombian GAAP. For a reconciliation to IFRS of our shareholders' equity as of December 31, 2014 under Colombian GAAP, see "Management's Discussion and Analysis of Financial Condition and Results of Operation—Financial Presentation and Accounting Policies—Effects of IFRS Adoption—Reconciliation of Our Shareholders' Equity to IFRS."

In addition, we believe the offering of the notes, which will receive a 100.0% equity treatment under IFRS, will contribute to strengthen our capital structure and further mitigate the accounting impact of our adoption of IFRS on our shareholders' equity. We are also evaluating the effect of reducing our outstanding share capital by decreasing the par value of our common shares.

While we believe that the combination of factors and measures described above, along with others under consideration will be sufficient to mitigate the accounting impact of our adoption of IFRS, no assurance can be given that such actions will be effective. See "Risk Factors—Risks Relating to Our Business and the Colombian Telecommunications Industry—We expect that our adoption of IFRS will result in stockholders' equity of less than

50% of our capital stock, which could trigger a mandatory dissolution proceeding under Colombian law." For additional information on the effects of our adoption of IFRS see "Presentation of Financial and Other Information—Financial Statements—Effects of IFRS Adoption."

Our History

We were created in 2003 as a result of the Colombian government's decision to liquidate the state-owned telecommunications service provider, Telecom and certain of its affiliated companies. In 2003, we assumed Telecom's operations and, on August 13, 2003, we entered into the PARAPAT Agreement, whereby we (i) acquired the exclusive right to use and operate the telecommunications properties and assets of Telecom and its affiliated companies and (ii) would receive these assets at the expiration date of the agreement. In exchange for this right, we agreed to pay the PARAPAT Payment Obligations, first directly to Telecom and its affiliated companies and, since December 2005, to an asset protection trust known as PARAPAT. The proceeds from the PARAPAT Payment Obligations would be used by PARAPAT mainly to fund Telecom's legacy labor and pension obligations. See "Business—PARAPAT Agreement."

Telefónica acquired a controlling stake in our company in April 2006 through its subsidiary Telefónica Internacional, at which time we, Telefónica and the Republic of Colombia entered into the Investment Agreement. See "Principal Shareholders—Investment Agreement with the Republic of Colombia."

We commenced operations under the *Movistar* brand in May 2012, and, in June 2012, we merged with TEMCO, a Colombian mobile telecommunications provider owned by Telefónica, upon which our company was the surviving entity. For a more detailed discussion on the TEMCO Merger, see "—TEMCO Merger."

TEMCO was incorporated in October 1997 as Celumóvil and was the result of a merger between Celular Móvil de Colombia S.A. and Celumóvil de la Costa S.A. In July 2000, Celumóvil acquired 100.0% of Cocelco, a Colombian mobile telecommunications provider, which was subsequently merged into Celumóvil in January 2001. Celumóvil was acquired by Bellsouth Corporation in 2000 through its Colombian subsidiary Olympic Ltda. en Liquidación. In 2004, Telefónica acquired Celumóvil and renamed it Telefónica Móviles Colombia S.A. In 2005, Telefónica adopted the *Movistar* brand as the sole brand for its mobile telecommunications services in 13 Spanish-speaking countries, including Colombia. In 2005, TEMCO migrated from CDMA to GSM technology.

TEMCO Merger

We are the result of the merger of TEMCO with and into CT, for which the deed of merger was executed on June 29, 2012. The TEMCO Merger was structured as part of a strategy to strengthen the financial condition of CT and to create one of the largest integrated telecommunications operators in Colombia. Factors including, among others, the substitution of fixed-line services for mobile services (which was not sufficiently offset by the growth of broadband Internet and television services), the convergence of telecommunications services, the modification of the access charges regime and the consolidation of the industry, adversely affected the financial condition of CT and its ability to meet its PARAPAT Payment Obligations during 2011 and 2012.

In connection with the TEMCO Merger, among other actions:

- The PARAPAT Payment Obligations were restructured and the Republic of Colombia assumed the obligation to cover 47.9665396% of CT's future PARAPAT Payment Obligations, while TEMCO assumed the obligation to cover the remaining 52.0334604%, as reflected in an amendment to the PARAPAT Agreement;

- TEMCO and PARAPAT agreed on a new payment schedule for the portion of the PARAPAT Payment Obligations assumed by TEMCO and a new formula to calculate the amount of each annual payment; and

- The shareholders of CT amended the Investment Agreement to reflect the TEMCO Merger and terms and conditions agreed to between the Republic of Colombia and Telefónica.

The shareholders of TEMCO and CT approved the TEMCO Merger on April 24, 2012. Public Deed No. 1751 setting forth the terms and conditions of the TEMCO Merger was executed on June 29, 2012 and registered at the Chamber of Commerce of Bogotá on July 6, 2012. Pursuant to the terms of the merger deed, CT was deemed to have absorbed and acquired all of TEMCO's assets, rights, liabilities and obligations, including TEMCO's obligations to make payments under the PARAPAT Agreement, as of June 29, 2012. In connection with the TEMCO Merger, all of TEMCO's PARAPAT Payment Obligations were assumed by us.

As a result of the TEMCO Merger, Telefónica became the holder of 70.0% of our capital stock and the Republic of Colombia became the holder of the remaining 30.0%.

Our Services

Our telecommunications services consist of:

- mobile telecommunications services utilizing 2G, 3G and 4G technology;
- data transmission and internet access services;
- usage of our network (i) to complete calls initiated by customers of other telecommunications service providers (interconnection services) or (ii) by service providers that do not have the physical telecommunications networks;
- value-added services, including, but not limited to, voice, text and data applications, including voicemail, caller identification, or caller ID, and other services, such as e-mail and push e-mail solutions;
- fixed-line telephone services, including local, long-distance and international services;
- public telephone services;
- advanced voice services, digital tools and integrated IT solutions to corporate customers, including audio and video conferencing, data protection and cybersecurity, cloud computing, advertising, M2M and e-health, among others; and
- subscription television services.

We also provide our customers with other complementary products and services, including, but not limited to, access to entertainment content, handsets and other accessories, e-banking and insurance. In addition, we offer our customers *Movistar* Mobile Insurance (*Seguro de Móviles Movistar*).

Mobile Telecommunications Services

We are a full-service mobile telecommunication services provider in Colombia. We operate under the brand *Movistar*. Our mobile services have been active since 1994, and we currently have a GSM network, a 3G network and a 4G network to provide wireless voice, video and data services.

In 2014, revenues from mobile telecommunications services accounted for 62.7% of our net revenues. We offer mobile voice and data services under a variety of rate plans to meet the needs of different customer segments. The rate plans are either "pre-paid," where the customer pays in advance for a specific amount of airtime that may be used over a specified period, or "post-paid," where the customer is billed on a monthly basis for services provided during the previous month. As of December 31, 2014, pre-paid subscribers represented 74.6% and post-paid subscribers represented 25.4% of our total subscribers.

Migrating pre-paid subscribers to post-paid plans is one of our primary strategies to add value to our subscriber base and to grow our post-paid subscriber base without adding significant credit risk. Our marketing strategy for pre-paid plans promotes low-usage subscribers to recharge their minutes in a stable and recurrent manner and to maintain a higher balance of minutes in their accounts, thereby preparing them to migrate to higher value post-paid plans. Currently, our post-paid subscribers generate significantly higher revenue than pre-paid subscribers and have a lower churn rate. As of December 31, 2014, ARPU from our pre-paid subscribers was COP$5,098, while ARPU from our post-paid subscribers was COP$50,508. In addition, as of December 31, 2014 and 2013, the churn rate of our post-paid subscribers was 2.1% and 1.9% respectively, compared to 3.5% and 4.5% respectively, for our pre-paid subscribers.

The following table shows our ARPU.

	For the year ended December 31,		
	2014	**2013**	**2012**
ARPU		(in *pesos*)	
Pre-paid Mobile Voice	5,098	4,895	4,515
Post-paid Mobile Voice	60,066	59,729	62,838
Post-paid Mobile Data	11,605	14,346	17,692

Pre-paid plans

We have offered pre-paid plans to our customers since 1998. Pre-paid customers purchase either a SIM card or a pre-paid kit, including a SIM card and a mobile phone, and a pre-paid credit for a specific amount of airtime that may be used for many of our services, including SMS and MMS messaging, Internet, international dialing and calling friends and family.

Customers who prefer pre-paid services are generally those who are unwilling or unable to make a fixed financial commitment or do not have a credit profile consistent with the purchase of post-paid plans.

A pre-paid subscriber who purchases airtime credit does not have to use it within a specific time period, because our recharged airtime credits do not expire. However, if pre-paid costumers have no account activity (including making or receiving calls or SMS, or purchasing additional credit) for a period of three months, then service is discontinued and any remaining airtime credit expires.

Compared to a typical post-paid plan, pre-paid plans involve higher rates per minute, lower subscriber acquisition costs and billing expenses, and low credit or payment risk. However, pre-paid subscribers on average use substantially fewer minutes than post-paid subscribers and do not pay monthly fees. As a result, pre-paid subscribers generate substantially lower ARPU than post-paid subscribers.

As part of our efforts to migrate pre-paid customers to post-paid programs, after our pre-paid subscribers have been in the pre-paid program for a certain period of time, we offer them a post-paid monthly plan with limits on consumption, which we call a controlled plan. Controlled plans limit our payment risk and allow the subscriber to access better per-minute rates in exchange for a small price increase. If the subscriber remains current in its payment obligations under the controlled plan for a certain period of time, we then try to migrate those users to full post-paid plans and our full range of value-added services.

Post-paid plans

Post-paid customers pay a monthly subscription fee and are billed on a monthly basis for services provided during the previous month. Our post-paid plans include the following charges:

- monthly fees, which include minutes used and may include other services such as messaging or Internet services with certain or unlimited capacity, all of which are included in the monthly service fee;

- variable charges, for minutes used in excess of the services specified in the monthly fee; and

- additional charges for value-added services not included in the monthly fee, such as voicemail, SMS, Internet browsing and entertainment content.

Some post-paid plans are designed for high- and moderate-usage subscribers, who are typically willing to pay higher monthly fees in exchange for more minutes, digital services such as voicemail, call forwarding, call waiting, caller ID and three-way calling and lower per minute average charges under a single contract. To satisfy the more limited needs of low-usage post-paid subscribers, we also offer plans which provide moderate prices, cost control features, low fixed monthly charges coupled with a high per minute airtime charge and relatively few included minutes.

In addition, we offer post-paid subscribers the flexibility to manage their additional usage costs by contracting additional minutes under the pre-paid system. We also offer data services packages that may be added to voice plans, which include greater SMS capacity, videoconference services and Internet data transfer services. Users may also add e-mail, push e-mail, file transfer, video and audio streaming, social networks and browsing services to existing packages. Post-paid subscribers may terminate their contracts at any time, except those that received a subsidized handset prior to June 30, 2014 as part of a subscription plan, which must remain with the plan for 12, 18 or 24 months.

Roaming

We offer international roaming services to our subscribers through the networks of international mobile service providers with whom we have entered into roaming agreements. Subscribers are able to use our mobile services outside of Colombia by paying international roaming fees. We have entered into approximately 204 agreements including Roaming HUB worldwide covering 294 GSM and 3G networks. As of December 31, 2014, we had launched roaming GSM services in 118 countries and GPRS in 110 countries. Additionally, most of the operators of our GPRS services with whom we have existing contracts offer 3G services. Our international roaming fees include services for voice, SMS and data under a variety of rates, as well as packages including minutes, SMS and Internet data services.

Roaming payments between us and our international roaming partners are settled through Syniverse Technologies, Inc., which provides us the data and financial clearing house services that collects traffic and facilitates the settlement of payments among the participating providers. Our subscribers traveling to countries where the Telefónica group operates a mobile network receive a discounted roaming rate.

Data Services

Mobile Broadband (MBB)

Our MBB service allows our subscribers to access the Internet from smartphones and tablets, or from laptops or desktops computers with USB broadband cards to provide wireless connection. Our MBB service allows our subscribers to always be connected without relying on passwords, fixed web, cables or Wi-Fi availability. The main features of our MBB platform are e-mail, anytime and anywhere Internet access (subject to signal strength), instant text messaging, chats and downloads. We were the first telecommunications company in Colombia to deploy a 4G network, allowing for connection speeds up to 10 times as fast as the 3G network, which is available to our customers with smartphones and other devices capable of broadband connection in 75 cities and towns nationwide. As of December 31, 2014, thirteen months after the commencement of operations of our 4G network, we had over 343,626 users accessing the Internet through our 4G network.

We offer a wide variety of plans to meet our customers' needs. We currently offer plans that vary by the amount of data (expressed in megabytes) customers may access for a monthly fee and plans that offer unlimited data for specific services, including chat, e-mail and social networking.

Fixed Broadband

We have offered broadband service in Colombia since 2000. Using our ADSL, ADSL2+ and VDSL technology, we offer our customers broadband speeds between 1 Mbps and 15 Mbps, with guaranteed speeds. Customers who subscribe to our broadband service are eligible for value-added services, including anti-virus, antispam, content filters and e-mail accounts. As of December 31, 2014 we had over 959,175 fixed-line broadband customers in over 242 cities and towns nationwide, covering more than 66.7% of households in Colombia.

Internet Browsing

Currently, we offer WAP and Web browsing for GSM, HSPA, HSPA+ and 4G networks. WAP allows a micro "browser" in a mobile phone to link into a gateway service in our content portal, enabling users to scroll through third-party content on the Internet, even if they are using a feature phone. Our WAP gateway enables our pre-paid and post-paid users to access e-mail, banking, and ecommerce services. The majority of our customers have switched to devices better suited for Internet browsing through HTTP, such as smartphones, tablets, netbooks, and computers capable of accessing the Internet through mobile WiFi HotSpots, PC cards or USB cards, in addition to other devices with individual network sharing capabilities.

Our subscribers may supplement their existing voice plans with data packages or subscribe to all-inclusive voice plus data plans, allowing access to the Internet or to other digital content through native Operating System Applications, or OS apps. This service has become increasingly popular with the considerable growth in smartphones in Colombia, including those that use Android, IOS, Windows, Firefox and Blackberry operating services.

Interconnection

We earn interconnection revenues from calls made to any of our subscribers that originate from the network of another service provider. We charge the originating network's service provider an interconnection charge for the time our network is used in connection with the call. Likewise, we must pay interconnection charges for calls made by our subscribers to subscribers of other service providers, whether mobile or fixed. The rate structure for interconnection charges is designated by the CRC and varies for calls terminating on our local fixed-line network and calls terminating on our mobile network.

From 2014 to 2015, mobile termination rates decreased by 41.7%, from COP$56.38 per minute in 2014 to COP$32.88 per minute in 2015. Mobile termination rates are regulated by CRC Resolution 4660 of 2014, or Resolution 4660, amending Resolutions 1763 of 2007 and Resolution 3136 of 2011. Pursuant to Resolution 4660, mobile termination rates will decrease by an additional 42.2% to COP$19.01 per minute in 2016, and will further decrease by 42.2% to COP$10.99 per minute in 2017.

In addition, in order to address asymmetric pricing caused by market concentration, the CRC issued Resolution 4002 of 2012 and Resolution 4050 of 2012, which established a lower termination rate for the mobile network of Claro Colombia, the dominant operator in Colombia. This lower termination rate was aimed at reducing the access charges that other mobile operators have to pay for calls completed using Claro Colombia's network, as well as the cost of outgoing calls for Claro Colombia's subscribers calling to third parties using other networks. The termination rate payable to Claro Colombia was set at COP$$19.01 per minute beginning on January 1, 2015, representing a 55.3% decrease from COP$42.49 per minute in 2014. The termination rate payable to Claro Colombia will further decrease by 42.2% to COP$10.99 per minute in 2016. The lower termination rate currently applicable with respect to Claro Colombia's mobile network will end in 2017, causing all operators to pay COP$10.99 per minute in 2017, in accordance with Resolution 4660. This lower termination rate has positively affected our EBITDA by reducing cost per minute, and improved our revenue due to increased incoming traffic from users subscribing to Claro Colombia's network.

From 2013 to 2014, the rate for fixed-line interconnection charges decreased by 10.7%, from COP$124.87 per minute in 2013 to COP$111.55 per minute in 2014, and will further decrease by 20.3% to COP$88.91 per minute in 2015.

As of December 31, 2014, mobile networks and fixed-line networks represented 77.1% and 22.9%, respectively, of our revenues from interconnection charges.

The calling-party-pays, or CPP, tariff structure was implemented in 1994. Under this tariff structure, telephone companies pay other telephone companies an interconnection charge for calls placed from their networks to third-party networks. Telephone companies may pass this interconnection charge on to their subscribers. For mobile to mobile calls, the originating network operator pays an access charge to the terminating network operator. For fixed-line to mobile calls, the fixed-line network operator receives a regulated origination charge, while the remainder of the tariff is paid to the mobile network operator.

Mobile Virtual Network Operators

During the first quarter of 2013, Virgin Mobile launched its services in Colombia, using our *Movistar* network. Virgin Mobile focuses on customers in the younger segment of the population by offering packages that allow subscribers to use large quantities of data and charge for airtime by seconds instead of minutes. Currently, Virgin Mobile is ranked as the most successful MVNO in Colombia, according to MINTIC.

According to MINTIC, as of September 30, 2014, Virgin Mobile has 3.2% of the market share including all mobile services providers and 71.2% of the market share of MVNOs, in each case in Colombia, with over 1.7 million subscribers.

The consolidation of MVNOs in Colombia, along with the launch of Móvil Éxito, a MVNO on the Colombia Móvil Network designed for members of the customer loyalty program for the supermarket chain Éxito, have had a significant impact on the MVNO segment of the Colombian telecommunications industry. As of September 30, 2014, MVNOs had a 4.5% market share in Colombia.

Value-Added Services

Voice

Subscribers may use voicemail and caller ID services from their mobile phones.

E-mail

Subscribers may access e-mail services using their mobile phones, smartphones, tablets or other device capable of browsing the Internet, allowing them to access and send e-mails from such devices when accessing our network.

Push E-mail Solutions

Push e-mail permits constant synchronization between our network and the corresponding e-mail server, including the option to synchronize tasks, calendar and contact information. Push e-mail services are available for all smartphones and tablets offered by us, including Android, BlackBerry and iPhone devices.

Complementary Services

Entertainment

We offer a variety of entertainment content and services to our pre-paid and post-paid subscribers, including downloadable games (such as action, sports, casino, adventure and 3D games), music from major record labels (including our back ringtone service) and national and international television shows, all of which can be downloaded to our subscribers' mobile phones (to the extent compatible with our entertainment content), smartphones and other devices .We also offer live streaming audio and video broadcasts of various events to our MBB subscribers, as well as personalization services for mobile phones such as screensavers and ringtones.

Handsets and Other Accessories

We offer a variety of products as complements to our wireless and value-added services, including handsets, tablets, USB modems and accessories such as chargers, headsets and batteries. We classify our product offerings according to our subscribers' needs. Our current product offerings are divided into four categories:

- Low Range Phones, which are designed for customers that only require voice services;
- Lite Smartphones, which are designed for first-time users or for customers using a smartphone primarily to stay connected with family and friends;
- Standard Smartphones, which are designed for customers requiring faster connection speeds, such as professionals requiring continuous Internet connection for work-related use; and
- Premium Smartphones, designed for our customers with very high data usage and a preference for high-end devices for work-related and entertainment use.

Smartphones sales represent 80.1% of our total equipment sales.

We currently offer a balance portfolio of handsets for use in 3G and 4G networks, in which devices for 4G networks have rapidly increased their share in sales, representing 69.0% as of December 31, 2014 of our total equipment sales, and with prices below U.S.$110.0. One benefit of belonging to the Telefónica group is that we have early access to new product releases, including the release of Samsung S5, LG G3, Motorola X, iPhone 5S, iPhone 6 and iPhone 6 Plus handsets. An additional benefit of belonging to the Telefónica group is that the Telefónica group negotiates handset needs of its operators on a global basis, consolidating the needs of each of its individual operators and allowing us to offer handsets from all of the major mobile phone producers, including Apple, Nokia, RIM, Sony, Motorola, Huawei, Alcatel, LG and Samsung.

Seguro de Móviles Movistar Insurance Plan

Our "*Seguro de Móviles Movistar*" insurance plan provides free or reduced-cost repairs or replacements as a result of accidental damage to, failure or theft of, our customers' mobile equipment. The cost of these insurance plans varies based on the type of equipment that is covered.

Messaging Services

Short Message Services (SMS)

With SMS, subscribers are able to send and receive short text messages domestically or internationally from users both inside and outside of our network. Basic rates for SMS depend on certain factors, including the number of messages sent and received, whether the plan is pre-paid or post-paid and whether the messages are sent to recipients inside or outside our network. We also offer premium information services through our SMS service, including weather reports, financial quotes and entertainment news.

Multimedia Messaging Service (MMS)

MMS is an enhanced version of SMS, which allows our subscribers to send and receive multiple color images, sounds and text in a single message domestically or internationally from users both inside and outside of our networks. Basic rates for MMS depend on certain factors, including the number of messages and whether the plan is pre-paid or post-paid.

Fixed-Line Services

In 2014, revenues from our fixed-line services accounted for 9.5% of our sales and 25.5% of our fixed-line business. We have provided local fixed-line voice services in Colombia for over 50 years, using our own infrastructure or via interconnection services, which allows us to provide coverage to 79.7% of the Colombian territory as of September 30, 2014.

We have enhanced our services portfolio, to include (i) a fixed *plus* mobile plan that allows unlimited calls between fixed and mobile lines and (ii) a friends and family plan that allows unlimited calls between four mobile numbers and one fixed line.

In addition, revenues from our long-distance services have decreased by 6.7%, from COP$249,269 million in 2013 to COP$232,590 million in 2014, due to the rebranding and widespread marketing campaign of our "09" and "009" prefixes for national and international dialing, respectively.

In recent years, we have focused on introducing digital equipment in our network, in order to enhance our current exchanges and to be used in the development of new transmission lines. Digital systems are more profitable than analog systems, and also allow a wider range of voice, text and data to be transmitted simultaneously on the same network.

Corporate Services

We offer customized mobile and fixed voice and data services to our corporate customers, which represented approximately 22.8% of our total income as of December 31, 2014. Our corporate services include among others:

Traditional voice services

Our portfolio includes fixed and mobile voice services, including basic lines, legacy telephone connections, managed mobility, ToIP and SIP.

Corporate Services

Our corporate portfolio includes fixed-line and mobile coverage, including a wide variety of services ranging from mobile data plans to complex fixed-line networks. Our corporate services include:

- *Enterprise communications services*. We provide telecommunications integration services for our corporate customers, including branches and employees, using voice and data applications. Our enterprise communications services are supported by our infrastructure and cover all business needs, including VPN IP MPLS, voice VPN, fixed-mobile VPN, Interlan, Clear Channel, satellite services and international data services. This coverage ranges from voice and data communications to more advanced communications.

- *Collaboration and workplace management*. We provide advanced communications and collaboration solutions among the people, departments or branches within a company, and integrate different forms of media sharing and information formats, such as voice, video, data, file sharing and streaming. We offer customizable service packages, which are tailored to specific customer needs, such as the number of participants and whether the communication or collaboration is internal or external. Our collaboration services include voice and video conferencing services. We also provide for and manage all IT and communications elements that comprise the workplace, and can assist with convergence of IT, fixed-line and mobile services in work environments. This service operates desktop and LAN management, Internet and intranet connectivity and fixed-line and mobile extensions, as well as unified communications.

Digital services

We have a complete portfolio of digital services, including:

- *Cloud Computing*. Our cloud computing services include the management of IT infrastructure and application services. These services include information storage at data centers, which is accessible through our network, in addition to application management, server consolidation and dedicated hosting. Our portfolio for medium and large companies includes cloud computing services and other virtual information management services featuring on-demand self-service, broad network access, resource pooling, rapid elasticity and measured service.

- *Business Continuity*. Our business continuity services allow us to focus on providing and managing plans, processes and infrastructure to ensure business continuity within a company. Coverage ranges from data recovery to dedicated support centers which are integrated with our data center and accessible from our network. This service operates disaster recovery, backup and storage.

- *Network Applications.* We provide services for the use of collaborative applications and communication programs, which transforms operating platforms, basic software and applications into our "Software as a Service" format. Such services are available from our data centers and are accessible from our network. This service operates content distribution, mail, agenda management, corporate chatting and a contact center.

- *Machine-to-Machine*. "Machines" use network resources to communicate with remote application infrastructure for monitoring and control purposes, either of the "machine" itself, or the surrounding environment. Our portfolio includes connectivity solutions and productivity apps such as *Automatización de Personal en Campo*, *Empresa en Línea* and the automatic vehicle locator, or AVL, among others.

- *CyberSecurity Services.* Our cybersecurity services ensure confidentiality, integrity and availability of information within the IT and communications fields. Our security systems integrate knowledge, technology resources and processes, enabling customers to meet regulatory requirements and protect against growing environmental threats. Our security services include MSS monitoring, MSS administration and management, clean mail and security consulting.

Customized integration and project solutions

We offer a number of customized integration and project solutions, including:

- *Outsourcing Services.* We provide outsourcing services, which include management of corporate customers' IT and communications operations, and are designed to complement the business decisions of our corporate customers. In providing these services, we leverage our relationship with Telefónica, as a specialized technology partner that ensures proper operation and technical and operational development consistent with the individual business strategy of each of our corporate customers.

- *Integration services*. We provide integration services to assist with the design, implementation and maintenance of complex infrastructures for voice, data, IT and security. Our services are designed to assist corporate customers with integrating these various components, and cover a wide range of equipment, systems and services from the best technology providers.

- *Sector solutions.* We provide services designed to cover sector-specific needs, integrating and managing all components of IT and communications. We are capable of combining catalog services with specific products or applications, integrated and managed by us.

Subscription Television

We commenced offering subscription television services in Colombia in February 2007. We offer basic subscription packages for our television services, as well as a variety of premium packages which allow subscribers to tailor the content that they receive to their individual tastes. Several of our packages, including *Plan Movistar TV Zafiro* and *Plan Movistar TV Diamante*, include access to approximately 111 channels, including the 50 most-watched channels in Colombia. According to data published by the ANTV, as of September 30, 2014, our main competitors in the market for subscription television services were Claro Colombia, with 43.3% market share, Colombia Móvil with 21.0% market share and DirecTV, with 19.8% market share. As of the same date, we had a market share of 8.2%.

Rates

Mobile Services

Mobile telecommunications services in Colombia, unlike in the United States, are offered on a CPP basis, under which a mobile subscriber pays only for calls that he or she originates (in addition to roaming charges paid on calls made or received outside the subscriber's home registration area). A mobile subscriber receiving a collect call is also required to pay mobile usage charges.

Our revenues from mobile services mainly consist of charges for calls, SMS and mobile Internet services. Our revenues from pre-paid mobile subscribers historically consisted of charges for local and international calls. During the last several years, however, there has been a significant increase in our revenues from SMS, pre-paid roaming and mobile Internet services from these subscribers. Pre-paid subscribers are very sensitive to prices and promotions involving these services.

Currently, our rates for pre-paid plans range from COP$229 (U.S.$0.10) to COP$599 (U.S.$0.25) per minute. We have recently begun offering the option to pay per second, at a rate of COP$4.8 (U.S. $0.0020) per second. Promotions related to this type of service mainly include double or triple credit for any recharge purchased by the customer.

Our revenues from post-paid subscribers consist of monthly subscription charges paid by our post-paid plan subscribers based on each subscriber's service plan. Our typical service plan involves a package combining voice, SMS and mobile Internet services, while some subscribers pay additional charges for services such as international calls and roaming, services outside of their plan, and recharges for purchases of airtime minutes or data packages. The greatest increase in revenues has come from data services. We currently offer the option to purchase a monthly post-paid service that only offers Internet access, without the option to purchase recharges for airtime minutes.

Currently, monthly fees for post-paid plans range from COP$41,200 (U.S.$17.22) to COP$229,200 (U.S.$95.80) per month, depending on the structure of the plan, the number of minutes included and the destination of calls placed (whether a call is placed to another mobile number within our network, a mobile number outside our network or a fixed line). In addition, we offer monthly post-paid data services plans priced between COP$29,900 (U.S.$12.50) and COP$69,900 (U.S.$29.22) per month.

Fixed-line Services

We obtain revenue from local fixed-line telephone service through installation charges for new lines, monthly line rental charges, monthly measured service charges based on the number of pulses and other charges for maintenance and additional services. Rates also differ for residential and commercial customers. Measured service charges for both residential and commercial consumers consist of a basic monthly fee and a fixed charge for local calls in excess of a monthly allowance, which increases as the number of pulses increases. Monthly rates currently include voicemail, call-waiting and three-way calling, with other services available for additional charge. We also offer plans with a predetermined or an unlimited amount of minutes for local and national fixed-line voice services.

We offer broadband Internet and HD television services as part of a bundled package to our fixed-line customers. This strategy of bundling allows us to offer HD television to a broader segment of customers and at affordable prices. Our bundled packages also feature satellite television, allowing customers to purchase these services at a discount as compared to the amount they would pay for each service separately.

Regulation of Rates

The pricing regime for the provision of telecommunications services in Colombia is set forth in Article 23 of Law 1341 of 2009, pursuant to which the providers of telecommunications networks and services can freely establish the prices to be charged to users. Such prices are only regulated by the CRC when (i) there is insufficient competition, (ii) a market failure occurs, or (iii) the telecommunications services offered do not meet required quality levels. Pursuant to this regulation, telecommunications services charges and rates are subject to a free pricing principle. Historically, the CRC has only declared one market failure in connection with the mobile voice market, in with Resolution 2062 of 2009, when it declared that Claro Colombia was a "dominant operator." The CRC declared that Claro Colombia had significant market power at that time and, as a result, Claro Colombia's mobile voice rates remain subject to regulation until the CRC deems that the market failure has been corrected. The CRC is currently pursuing regulation to either maintain or modify the remedies available to Claro Colombia.

Calls between fixed and mobile lines are also subject to price regulation. Since 2005, the CRC has instituted price caps on fixed-to-mobile communication. The CRC bases such price caps on a formula that applies uniformly to all mobile and fixed-line operators. For 2014, the regulated price is COP$111.55 (U.S.$0.05) and will further decrease to COP$88.91 (U.S.$0.04) per minute in 2015.

For more information, see "The Colombian Telecommunications Industry—Regulation of the Colombian Telecommunications Industry."

Marketing

The Colombian telecommunications market is among the most competitive and developed in Latin America, with relatively high penetration rates for both broadband and mobile telephone services. In order to increase profitability, we have focused on maintaining our market position through integrated product offerings (including voice and data) and convergent product offerings (including fixed-line and mobile calling). For example, in 2013, we began offering our "Family and Friends" plan, under which our customers have unlimited airtime minutes among four mobile lines on the *Movistar* network and one fixed line, all on the *Movistar* network. We also launched the "Post-paid Duo + TV" promotion in 2014, offering a discount to customers taking advantage of our bundling options.

The penetration of mobile data services in Colombia has rapidly increased since 2012, according to MINTIC. To satisfy the mobile data needs of our customers, we were the first operator to launch a 4G network in December 2013, which provides connection speeds up to ten times faster than the 3G network. In addition, we were the first operator to market unlimited voice calling plans in September 2014.

We market our telecommunications services to different customer segments based on their specific product and service needs. Our targeted marketing efforts help us build up our brand and customer loyalty, thereby increasing our customer retention. For instance, the *Platinum Client* customer loyalty program is offered to our high-value post-paid subscribers and to post-paid subscribers with the highest ARPUs and longest history with us. This program focuses on building a strong bond with our customers by giving them a wide variety of discounted smartphones and other equipment, special customer service treatment and invitations to private *Movistar* events.

We also offer our lower-income and pre-paid customers targeted promotions, including the ability to recharge accounts, manage voice and data usage, add and subtract plan services and access online customer service, based on such customers' frequency and amounts of recharge. We believe these promotions create loyalty to the *Movistar* brand, which improves customer retention in these segments.

Sales and Distribution

We have integrated our sales and distribution channels in order to offer mobile and fixed-line services at all of our points of sales. We currently offer our products and services through the types of sales and distribution channels set forth below.

In-Store Sales

Our in-store sales channel includes company-owned stores. As of December 31, 2014, we have 84 company-owned stores that operate as sales centers for our mobile and fixed-line services and provide customer service to our existing customers. Our in-store sales accounted for 22.1% of post-paid sales for mobile and fixed-line services as of December 31, 2014.

On-Location Sales

Our on-location sales channel consists of door-to-door sales as well as agreements with developers to sell our products, primarily our fixed-line services, to new customers. As of December 31, 2014, our on-location sales channel consists of approximately 1,781 salespeople operating throughout Colombia, 1,340of which are focused on sales to individual customers, 229 of which are focused on SMEs and 212 of which are focused on construction projects. Our on-location sales accounted for 26.3% of post-paid sales for mobile and fixed-line services as of December 31, 2014.

Retail and Shopping Center Sales

Our retail sales channel consists of a network of exclusive and non-exclusive retailers, generally located in commercial centers in the largest cities in Colombia. With approximately 423 non-exclusive points of sale as of December 31, 2014, this channel offers customers both mobile and fixed-line products and services. We also have 87 exclusive stores located in major shopping centers, resulting in our presence in 510 total stores located in major cities. Our retail and shopping center sales accounted for 11.7% of post-paid sales for mobile and fixed-line services as of December 31, 2014.

Dealer Sales

Our dealer sales channel consists of a network of 160 exclusive dealers reaching approximately 397 points of sale as of December 31, 2014. These points of sale are located in 153 municipalities, and represent 13.6% of our sales coverage in Colombia. In addition, we have 18 fully equipped service vans that operate as sales centers for our mobile and fixed-line services. Our dealer sales accounted for 21.9% of post-paid sales for mobile and fixed-line services as of December 31, 2014.

Dedicated Corporate Sales Group

We also have a dedicated corporate sales group with 262 salespeople to service the needs of our SME clients, this channel offers customers both mobile and fixed-line products and services of the largest cities in Colombia. Our dedicated corporate sales group accounted for 5.8% of post-paid sales for mobile and fixed-line services as of December 31, 2014.

Call Centers and Online Sales

As of December 31, 2014, we have 7 call centers that rely on inbound (customer calls to our service centers), outbound (calls to our customer base and to offer products) and cross selling (calls from customers for reasons other than to offer products) platforms to sell minute packages, upgrades, promotional rates and additional services to our post-paid subscribers and voice and SMS packages to our pre-paid subscribers. Our inbound platforms are serviced by 58 salespeople and our outbound platforms are serviced by 697 salespeople as of December 31, 2014. Our call centers and online sales accounted for 10.3% of post-paid sales for mobile and fixed-line services as of December 31, 2014.

Mixed Sales

Our mixed sales channel operates through commercial distributors, exclusively marketing pre-paid products, such as SIM cards and pre-paid packs. Our mixed sales channel is serviced by 77 salespeople as of December 31, 2014. This channel seeks to automate sales of these products in commercial establishments such as Internet cafes, bookstores and neighborhood stores, among others.

Recharge Sales

Our recharge sales channel operates through commercial distributors, exclusively marketing pre-paid recharge cards (physical and electronic). As of December 31, 2014, we had approximately four sales agencies specialized in marketing electronic recharge cards and 10 sales agencies specialized in marketing physical recharge cards, which collectively reach approximately 200,000 points of sale. This channel seeks to automate sales of these products in commercial establishments such as Internet cafes, gambling networks, bookstores, neighborhood stores, online stores and supermarkets, among others.

Suppliers

To take advantage of economies of scale, Telefónica negotiates the supply of equipment, handsets and modems on a centralized basis for all of its worldwide subsidiaries, which we believe allows us to purchase equipment at lower prices than our competitors. We provide Telefónica with our equipment requirements, and Telefónica negotiates the terms of the purchases directly with the relevant equipment manufacturers.

Globally Centralized Purchasing Structure

The Telefónica group uses the Telefónica Purchasing Model (*Modelo de Compras de Telefónica*, or MCT), for all of its affiliates worldwide, which is characterized by the following features:

- an organizational structure that facilitates management coordination on a global, country and individual company level;
- an operational management scheme oriented towards globalized purchasing, which also considers local factors and the specific needs of each individual entity;
- a competitive process which provides for equal opportunity, transparency and objectivity in decision-making and a clear differentiation between the roles of supplier and purchaser, while still meeting our commitments to our suppliers;
- expansion and integration of the supplier base of the different companies within the Telefónica group;
- a negotiation model based on auction or successive rounds of negotiation and establishment of target prices;
- determination of awards based on the consensus of the affected areas;
- involvement of our purchasing department in the specifications for products and services in the earliest stages of development; and
- knowledge sharing to ensure the implementation of best practices and benchmarking in the purchasing process.

In general, MCT regulates all contracts between companies of the Telefónica group, as well as contracts of Telefónica group companies with external, including many of our purchase agreements. However, certain exceptions to MCT regulation include contracts for the acquisition of companies, operating licenses and radio frequencies; staffing; financial and legal services; insurance policies; external audits; services with regulated prices and commissions to the sales network, among others.

Mobile equipment

Our mobile equipment consists primarily of (i) handsets and accessories we sell to customers and (ii) equipment required to expand, maintain and operate our network. We source our handsets from major mobile phone suppliers such as Apple, RIM, Samsung, Nokia, Sony-Ericsson, ZTE, Huawei, Motorola, TCT Mobile and LG. We purchased approximately 1.01 million handsets in 2013 and 1.03 million in 2014. We source our network equipment from Nokia Siemens, Ericsson and Huawei. We believe that we will continue to be able to purchase the mobile equipment that we require to meet our customers' demands and to satisfy our requirements for expansion, maintenance and operation of our network in the future.

Fixed-line equipment

We purchase materials and equipment for our exchanges and transmission lines from a variety of telecommunications equipment suppliers. As of December 31, 2014, approximately 60.1% of our installed fixed voice lines were manufactured by Ericsson, NEC and Nortel, each of which accounted for approximately 20.0% of our installed fixed voice lines. In addition, we have two broadband ADSL providers, Alcatel-Lucent and Huawei, each of which support 41.0% and 59.0% of our fixed broadband lines, respectively. We believe that we will continue to be able to purchase the telecommunications equipment that we require for new projects and for maintenance of our existing system from a variety of providers in the future.

Subscription television equipment

We purchase equipment for subscription television services from several sources. We purchase approximately 90% of our antennas from Observa Telecom and from Kathrein and approximately 90% of our decoders from Easy Digital, Sagem, Technicolor, Kathrein, among others. We also purchase 100% of our smart cards from Nagravisión and remote controls from Universal Electronics, for security reasons. We believe that we will continue to be able to purchase the telecommunications equipment that we require for new projects and for maintenance of our existing system from a variety of providers in the future.

Billing and Collection

We send each of our mobile post-paid customers a monthly bill that details itemized charges such as voicemail, call forwarding, call-waiting, caller ID, three-way calling and long-distance, roaming charges and value-added services such as SMS, MMS, audio and video streaming broadcasts and data and web usage, as well as applicable taxes.

We send each of our fixed-line customers a monthly bill that details all the services (including Internet broadband, fixed-line telephone and television subscription) provided during the prior monthly period. Customers are grouped in billing cycles based on the date their bills are issued. Each bill separately itemizes local calls, long-distance calls, toll-free services and other services such as call-waiting, voicemail and call forwarding. We have agreements with several banks and other vendors for the receipt and processing of payments from our customers.

Our collection management model consists of a series of processes and tools designed to manage our clients with debt. Currently, we employ the following three processes:

- *Mass Collection Management*. We apply procedures and tools to prevent and manage debt for mass groups of clients, including residential customers. Generally, the same procedures and tools are automatically utilized with the entire group, which are aligned with our management model.

- *Personalized Collection Management*. We utilize specific procedures and custom tools to prevent and manage debt for our very important persons, or VIP, customers and customers in certain segments, such as our business, top business, intragroup and wholesale segments. These procedures and tools include strategies with commercial and customer service departments in order to minimize the provision for doubtful accounts while simultaneously increasing customer satisfaction.

- *Segmentation*. We engage in activities to place clients in the correct collection strategy procedure, in accordance with our predetermined collection policies. Portfolio segmentation assigns differential fee strategies to clients based on the amount or age of the client's debt. Once determined, each classified portfolio is sent to the corresponding area for collection management, which may be personalized or through a third party.

Additionally, our collections process guarantees a nationwide network of collectors. We currently have 26,802 collection points, including through a website, bank, shops, chain stores, external collection points or our own collection points. We believe that this process facilitates payment for our customers by allowing them to pay through the channel that they find most convenient. We also provide the option of payment through monthly direct deposit. Approximately 56.2% of our collection service providers are able to effect the application of online payments, which ensures that we can quickly reflect any payments in customers' accounts, thereby helping to prevent unnecessary late charges or cancellation of service.

Fraud Detection and Prevention

We have implemented fraud detection and prevention measures in accordance with international standards. We classify fraud into four different types:

- *Subscription Fraud.* Subscription fraud is perpetrated by a prospective customer or the distribution channel at the moment of contracting mobile services through the use of a false identity or other action aimed at avoiding payments. Some of our preventative measures to avoid subscription fraud include reviewing identity fraud claims, considering payment defaults and including them in the predictive models, blocking roaming based on fraudulent behavior, and monitoring abnormal behavior.

- *Distribution Channel Fraud.* Distribution channel fraud is perpetrated by an intermediary between us and the customer to obtain economic benefit or excess commissions by taking advantage of accessibility to systems, process deficiencies or false data. Some of our preventative measures to avoid distribution channel fraud, including to: impose penalties to suppliers for improper sales, identify sellers for sales misconduct, review leaks in terminals, review unused lines and monitor the fraud indicator by distribution channel and seller.

- *Technical Fraud.* Technical fraud is perpetrated in an organized manner by taking advantage of any technical gap or deficiency. Some of our preventive measures to prevent technical fraud include constantly reviewing inconsistencies in the supply of our services, analyzing transfer behaviors and registering the IMSI, a security number for SIM cards that is used to complete sales. We also employ an ethical hacker to permanently monitor and close vulnerability in our systems, platforms and networks.

- *Internal Fraud.* Internal fraud is perpetrated within our company by direct or indirect employees for their own benefit or the benefit of third parties by exploiting their access to our systems and operating processes. Some of our preventive measures to avoid internal fraud include identification and control measures to monitor unauthorized discounts and account tampering, migration control based on defined commercial policies and blocking of certain user accounts. The selection process for direct employees and the contract definition for providers seek to protect against these practices.

- *Informational Fraud*. Informational fraud is perpetuated by improper and irregular actions resulting in the alteration, destruction, manipulation or theft of data from our information systems or any other tool or technology platform of our company, which generally results in economic and reputational damages. Some of our preventative measures to avoid informational fraud include to implement process and controls for information security and to establish at the organizational level a culture of digital security among our employees.

In addition, we implement permanent processes to prevent each type of fraud and ensure that fraud detection and prevention tools are updated and effective at the moment of launching a new service, for the early detection of potential technical deficiencies or perpetrators and preventing and rapidly correcting technical gaps or network deficiencies.

Customer Service

We believe that quality customer service increases customer satisfaction, which reduces customer churn rates and is a key differentiator in the wireless industry. Satisfying and retaining existing customers is critical to the financial performance of wireless service providers and an essential element of our strategy. Our customer service, retention and satisfaction programs are based on providing customers with convenient and easy-to-use products and services in order to promote long-term relationships and minimize churn.

Our focus on providing our customers with quality customer care and support is reflected in the sustained increase in our customer satisfaction index, as measured by a third party, and decrease in our churn rates. Our customer service efforts are based on our "Customer Journey" program, a customer satisfaction and loyalty initiative which focuses on responding to customers' needs throughout their lifecycle, from before they become a client to after they have cancelled their service. Specifically, we aim to develop individualized knowledge of our clients so as to provide customized service, creating an emotional connection with *Movistar*.

We provide the following service channels to our customers:

Digital Channels

Through our digital channels, customers manage their accounts and services online through the Movistar website. Through the website, customers can receive pricing and other information for mobile equipment, information about service plans (both fixed and mobile), purchase equipment and/or services, review account invoices and make payments, and file complaints or claims, among others.

Customers can also obtain information through social networks, including our Facebook and Twitter accounts. On our YouTube channel, customers can view commercial offers and promotions and download tutorial videos for our products and services. *Telephone Channels (Call Centers)*

Through our telephone channels, customers can make calls to our call centers for product or service consultations, to add new services to their plans or modify or renew existing plans, purchase or replace mobile equipment, review account invoices and make payments, and file complaints or claims, among others.

We also use our telephone channels for promotional campaigns and for to provide customer protection information.

Physical channels

We have 84 physical customer-service centers nationwide, allowing our customers to engage directly with retail and service personnel. In each Movistar customer service center, customers have access to the same services provided through our telephone channels.

Customer Experience and Quality Management

We have implemented a quality management model which has allowed us to execute strategic marketing campaigns with the purpose of retaining mobile and fixed-line customers. In particular, this management model has allowed us to reduce potential desertions of mobile costumers to 22.6% and actual desertions of mobile costumers to 2.1%.

We have also implemented monitoring programs, polls and recordings focused in client satisfaction which have allowed us to improve costumer experience in general. We believe that our policy to continuously renovate and replace devices has also allowed us to improve costumer experience.

Competition

Our industry is highly competitive. The competitive environment is significantly affected by key trends, including technological and service convergence, market consolidation and combined service offerings by service providers. See "The Colombian Telecommunications Industry" for more information on our competition.

Mobile Services

Mobile Voice

The mobile telecommunications market in Colombia is characterized by intense competition among providers of mobile telecommunications services. Competitive efforts in the Colombian market generally take the form of bundling of voice and data services in both the pre-paid and post-paid market. Recently, the focus of most bundled package offerings has shifted from voice to data as the primary component, following the global trend towards increased data usage.

According to MINTIC, our estimated market share in terms of mobile subscribers was 24.1% as of December 31, 2013, and 23.5% as of September 30, 2014. Additionally, as of December 31, 2013, Colombia had a mobile penetration of approximately 106% in terms of population density according to the MINTIC and the DANE. Our main competitor in the mobile voice market is Claro Colombia, which has an estimated market share of 54.7% as of September 30, 2014, according to MINTIC.

Mobile Broadband (data cards)

We are the third-largest provider of mobile broadband Internet services in Colombia in terms of market share, with an estimated market share of 12.2% as of September 30, 2014 according to MINTIC. Our main competitors are Claro Colombia and Colombia Móvil, which have an estimated market share of 61.4% and 25.3% respectively, as of the same date, according to MINTIC.

Internet

We are the third-largest provider of fixed-line broadband Internet services in Colombia in terms of market share, with a market share of 19.2% as of September 30, 2014 according to MINTIC. Cable providers that offer broadband services, particularly Claro Colombia and Colombia Móvil, are our main competitors in the broadband market, which have an estimated market share as of September 30, 2014 of 33.0% and 25.5%, respectively, according to MINTIC. These providers also offer competing integrated packages, consisting of subscription television, broadband and voice telephone services to cable subscribers who, in general, have more purchasing power than other consumers.

Fixed-Line Services

Competition from other telecommunications services has been increasing, particularly from mobile telecommunications services, which has led to traffic migration from fixed-line traffic to mobile traffic and the substitution of mobile services in place of fixed-line services, encouraged by offers of aggressively priced packages from certain mobile telecommunications service providers. We believe that major technological innovations, such as instant messaging services and VoIP, may impact fixed-line traffic in the future.

We are the third largest fixed-line services provider in Colombia in terms of market share, 20.3%, according to MINTIC, as of September 30, 2014. Our main competitors in the fixed-line services market are UNE EPM and ETB, which have a market share as of September 30, 2014 of 21.5% and 20.1% respectively, according to MINTIC. As of December 31, 2014 we had 1,461,031 fixed lines in service.

As of September 30, 2014, our domestic long-distance traffic totaled 722 million minutes, representing 60.9% share of the nationwide long-distance market according to MINTIC. Additionally, our outgoing international long-distance traffic decreased primarily due to the migration from fixed-line to mobile traffic. In the third quarter of 2014, mobile service providers had a 44.4% market share of outgoing international long-distance calls, representing an increase from 19% during the same period in 2010, according to MINTIC. Conversely, our market share of outgoing international long-distance calls decreased to 26.3% in the third quarter of 2014, as compared to 39.0% in the same period in 2010, according to MINTIC.

Subscription Television

As of September 30, 2014, we had 8.2% share of the market for subscription television services, according to the ANTV. In recent months, we have continued to expand our subscription television service, and particularly our HD channel offerings. Our main competitors in this market are Claro Colombia, Une, and DirecTV, which have a 43.3%, 21.0%, and 19.8% subscriber market share, respectively. DirecTV is the only other satellite TV operator and focuses on offering premium packages including HD channels to higher-income homes in Colombia. DirecTV has recently entered the broadband market in the main cities in Colombia using their 4G network.

Licenses and Concessions

We require permits for the use of radio-electric and radio-magnetic spectra, which we use in the operation of our networks. We provide telecommunications services pursuant to a general habilitation under Law 1341, except for television services, which we provide under a concession agreement. Set forth below is a table containing certain information about the terms of our mobile services licenses and subscription television concession. Each of the licenses and concessions listed below has national coverage.

Service	Type	Issue Date	Term	Band (MHz)
Mobile Telephone Services	License	March 28, 2014	10 years	For transmission from the mobile station to the base station: 835,020 – 844,980 MHz; 846,510 – 848,970 MHz; 1870.0 – 1877.5 MHz. For transmission from base station to mobile station: 880,020 – 889,980 MHz; 891,510 – 893,970 MHz and 1950.0 – 1957.5 MHz
Land Mobile Radio Services	License	October 18, 2011	10 years	DD' Segment: 1867.5 – 1870 MHz and from 1947.5 – 1950 MHz. EE' Segment: 1885 – 1887.5 MHz and 1965 – 1967.5 MHz. EE' Segment: 1887.5 – 1890 MHz and 1967.5 – 1970 MHz.
AWS (LTE)	License	July 26, 2013	10 years	1710 to 1755 MHz paired with 2110 to 2155 MHz.
Television Subscription (DTH TV)	Concession	January 31, 2007	10 years	Not applicable.

Termination of our Mobile Services Concession Agreements

Prior to March 2014, we had the right to use 40MHz of radio spectrum (25MHz in the 850MHz band and 15MHz in the 1900MHz band) under our Mobile Services Concession Agreements. Pursuant to Law 1341, we had the option to continue operating our Mobile Services Concession Agreements through the expiration of their term (that is, March 28, 2014) under the regulatory framework existing prior to its enactment in 2009, or convert to the general habilitation regime established thereunder. In addition, Law 1341 provided us with the option to, prior to the expiration of our Mobile Services Concession Agreements, request a one-time renewal of the permits to use the radio spectrum associated with such concession agreements, and convert to the general habilitation regime established under Law 1341.

In November 2013, we elected to convert to the general habilitation regime and accordingly we requested that the MINTIC renew our permit to use the 40MHz of radio spectrum associated with our Mobile Services Concession Agreements. In connection with this request, we were required to early terminate our Mobile Services Concession Agreements, which was effective as of November 28, 2013. Because our Mobile Services Concession Agreements are subject to Colombian administrative law, upon their termination the parties are required to enter into a "liquidation agreement" (*acta de liquidación*) confirming that no further obligations are outstanding under such agreements. Pursuant to applicable Colombian administrative law, the parties to an administrative agreement have six months following its termination to enter into such liquidation agreement. However, on May 7, 2014, we and the MINTIC agreed to extend the term to enter the liquidation agreements related to our Mobile Services Concession Agreements from May 28, 2014 through May 29, 2015.

Reversion of Assets

Pursuant to Clause 33 of our Mobile Services Concession Agreements, upon the expiration of each concession agreement we are required to return to the Colombian government the assets directly affected to the concession (*elementos y bienes directamente afectos a la concesión*). In connection with the ongoing negotiation of the liquidation agreements related to our Mobile Services Concession Agreements, we are currently discussing with the MINTIC the scope of this "reversion of assets" provision. Certain provisions of Colombian law (Article 4 and Article 68), enacted after the execution of our Mobile Services Concession Agreements, state that in respect of concession agreements for telecommunication services the obligation to return assets to the Colombian government upon expiration applies only to the radio electric spectrum associated with the concession. In our opinion, the "reversion of assets" terms of our Mobile Services Concession Agreements should be interpreted to incorporate the meaning of Article 4 and Article 68 pursuant to Clause 29 of our Mobile Services Concession Agreements, which states that we are required to comply with all laws and regulations related to the mobile telecommunications industry existing at the time we entered into such agreement, and any amendments thereto.

In August 2013, the Colombian Constitutional Court issued a ruling on the constitutionality of Article 4 and Article 68, which regulate the "reversion of assets" in the context of concession agreements for telecommunications services. The claim challenging the constitutionality of these provisions was presented by a private citizen and was not related, nor did it make reference, to any specific concession agreement for telecommunications services. The court affirmed the constitutionality of Article 4 and Article 68, under the understanding that, in the case of concession agreements entered into prior to the date on which these laws became effective (which is the case of our Mobile Services Concession Agreements), the terms of the specific reversion of assets provisions set forth in such agreements would prevail. The court in its opinion also indicated that the reversion of assets under the concession agreements executed prior to the enactment of Law 422 and Law 1341 could be achieved by either (i) returning both the radio electric spectrum and the assets directly related or affected to the services provided under the concession (*bienes afectos a la prestación del servicio*), or (ii) compensating the Colombian government in an amount equal to the economic value of such assets.

Constitutional actions in Colombia may be commenced by any private citizen or governmental entity and are limited to the general constitutionality of the provisions in question. Therefore, it is unclear how a judge, a governmental authority (including the MINTIC) or an arbitral tribunal would apply such decision to our particular situation. Furthermore, the Colombian Constitutional Court does not have jurisdiction with respect to contractual matters. The competent courts to resolve any claims relating to agreements subject to Colombian administrative law, such as our Mobile Services Concession Agreements, are those of the Colombian administrative court system or an arbitral tribunal.

As of the date of this offering memorandum, it is unclear what, if any, will be the effect of the Colombian Constitutional Court's ruling on the ongoing negotiation of the liquidation agreements related to our Mobile Services Concession Agreements with the MINTIC or what will be the outcome of such negotiations. The MINTIC may have a different view on the interpretation of the "reversion of assets" provision in our Mobile Services Concession Agreements and may ultimately seek to require us to return not only the radio electric spectrum, but other assets it deems directly affected to the concession. If we are required to return other assets in addition to the radio electric spectrum, the MINTIC could demand the economic equivalent value of those other assets. Furthermore, it is unclear, in the case of any such reversion of assets, how such obligation would be complied with.

In the event that we do not reach an understanding with the MINTIC in this regard, we or the MINTIC may initiate arbitration proceedings under Colombian law before an *ad hoc* tribunal. In addition, the MINTIC may elect to unilaterally liquidate our Mobile Services Concession Agreements, which could prevent us from commencing an arbitration proceeding as provided under such concession agreements. However, we may challenge the terms of the unilateral liquidation before the Colombian administrative court system.

The MINTIC intervened in the course of the constitutional proceeding before the judgment was issued and requested the Colombian Constitutional Court to declare the constitutionality of Article 4 and Article 68. In addition, in 2012, the former Colombian General Comptroller (*Contralor General de la República*), Ms. Sandra Morelli, stated its intention to challenge the constitutionality of Law 422 and Law 1341 with respect to those provisions allowing telecommunication services operators to sell their infrastructure used to provide mobile services, and to revisit the provisions applicable to the reversion of assets in the context of concession agreements. However, it did not file any constitutionality challenge nor intervene in the Colombian Constitutional Court proceeding. The Colombian General Comptroller has the mission to ensure the proper use of public resources and assets and therefore has the authority to initiate investigations and to impose sanctions for improper use of public resources against public officials. The Colombian General Comptroller and the MINTIC are two independent governmental authorities.

Network

Spectrum

For 2G and 3G the total radio spectrum capacity under which we currently operate is 55 MHz, 25 MHz of which are in the 850 MHz radio spectrum and 30 MHz of which are in the 1900 MHz radio spectrum. As of December 31, 2014, our GSM and 3G networks covered approximately 85.7% and 82.6%, respectively, of the total municipalities in Colombia, or 83.4% and 75.4% , respectively, of Colombia's population.

In 2013, we acquired an additional 30 MHz in the AWS 1.7/2.1 GHz band, through which we are currently deploying our 4G network. As of December 31, 2014, our 4G network covered 30.3% of Colombia's population. The main national urban centers with the higher population density are covered with this technology.

Mobile Networks

We have three mobile networks that operate simultaneously, each of which operates on the GGSM/EDGE network, the UMTS/HSPA+ network, and the LTE network.

GSM/EDGE

Initially our GSM/EDGE network began with voice and low speed data services through GPRS, which is a data value-added service that allows information to be sent and received across a mobile telephone network. GPRS radio resources are used only when users are actually sending or receiving data. Rather than dedicating a radio channel to a mobile data user for a fixed period of time, the available GPRS radio resources can be concurrently shared between several users. This efficient use of scarce radio resources means that large numbers of GPRS users can share the same bandwidth and be served from a single cell. The number of users supported depends on the application being used and how much data is being transferred. Because of the spectrum efficiency of GPRS, there is less need to build-in idle capacity that is only used during peak hours. GPRS therefore allows us to maximize the use of our network resources.

EDGE is a standardized set of improvements to the GSM radio interface. EDGE and GPRS traffic can function on any GPRS network, provided the carrier implements certain upgrades, which include certain modifications, installations and upgrades to base stations. The implementation of EDGE effectively triples the rate of data transmission offered by GPRS. Because GPRS and EDGE transmit information through data channels rather than voice channels, they facilitate faster connections than previous technologies, such as circuit switch data and high speed circuit switch data, or HSCSD. GPRS and EDGE services are able to accommodate corporate applications such as transmission of still and moving images, file sharing and other file transfer services, e-mail, WAP and WEB browsing, alarms, localization and other telemetric services.

Our GSM/EDGE network has been in operation since 2005 and operates in double band mode, with channels in the 850 MHz and 1900 MHz radio spectrums. As of December 31, 2014, our GSM/EDGE network had 85.7% coverage, measured by number of municipalities, or 83.4% coverage, measured by population. Nokia Siemens Network is our main network supplier and is responsible for all mobile access equipment. In 2005, the EDGE technology was implemented, offering speeds of up to 256 Kbps.

UMTS/HSPA

HSPA is a wireless technology for the third generation UMTS network, which is a wireless telephone communications protocol that allows networks based on UMTS to have higher data transfer speed and capacity. Our HSPA deployment supports downlink speeds of up to 14.4 Mbps and uplink speeds of up to5.6 Mbps. HSPA not only allows us to provide data transfer services offered by GSM based technologies (HSCSD, GPRS and EDGE), but also permits the provision of services that require a greater transfer rate, such as streaming media, instant file transfer (favoring mobile use of social networks), and increased security applications, particularly for banking and commercial services.

HSPA+ provides faster downlink and uplink speeds than HSPA (21.0 and 5.6 Mbps, respectively). The technology also delivers significant battery life improvements and dramatically quicker wake-from-idle time, delivering a true always-on connection.

Our UMTS/HSPA network has been operating in Colombia since December 2008, and had 82.6% coverage of the total municipalities in Colombia as of December 31, 2014. This network is comprised of 3G technology that is designed to offer mobile data services and high-speed wireless data transfers. Our UMTS/HSPA data service was initially implemented with a transfer speed of up to 384 Kbps and as of December 31, 2014, reaches speeds of up to 14.4 Mbps.

We also operate an extensive mobile network, covering 83.4% of the total population of Colombia for 2G wireless voice services, and covering 75.4% of the total population of Colombia for 3G wireless data services.

Long Term Evolution (LTE) Technology

LTE is a 4G technology developed to further increase network capacity and data throughput performance, create alternatives to fixed-line broadband service, enhance the performance of existing data applications, and drive the development of new applications. This new technology follows GSM's evolutionary path but is different from, and is expected to be an improvement upon, the previous generations of both GSM- and CDMA-based digital radio technologies, by providing wireless data networks with higher speeds and improved efficiencies. With a 30 MHz bandwidth spectrum, an LTE cell can reach download and upload speeds of 110 and 55 Mbps respectively.

The deployment of our 4G network is based on a sharing model with Colombia Móvil, other mobile operator, under which we share the LTE access network, including antennas, radio-frequency equipment and power systems, but each of us individually operate our own proprietary core network and platforms.

On December 2, 2013, we entered into a ten-year agreement with Colombia Móvil for the deployment of the LTE network, which includes a five-year rollout period covering 2,150 sites that are equally distributed among operators. Any expansion of LTE coverage will be based on certain key performance indicators. Pursuant to this agreement, we agreed to:

- ensure network coverage;
- assist with the expansion of the network to certain regions in Colombia;

- guarantee access on equal terms to the portion of the network owned by us;
- operate and maintain our portion of the network;
- purchase or rent products or services necessary for us to independently deploy, operate and maintain our portion of the network;
- assume any additional future capacity needs with respect to our portion of the network, including growth in infrastructure and related operation and maintenance; and
- share in costs and expenses related to the network.

In addition, pursuant to the agreement, we established an Executive Committee to manage this project, in which each party has equal voting rights.

Additionally, we were granted private (non-sharing) rights to the rollout of the LTE network in 179 municipalities in Colombia through 2018, required as part of the AWS spectrum that we were assigned.

Access Rates

Our emphasis on improving and maintaining our GSM/UMTS wireless network has led to a high level of service quality as shown in the table below:

	As of December 31,		
	2014	**2013**	**2012**
Network access rate(1)	98.4%	98.3%	98.3%
Dropped call rate(2)	0.7%	0.8%	0.7%

(1) Percentage of attempted calls that were completed successfully.
(2) Percentage of calls in progress that experience service interruption.

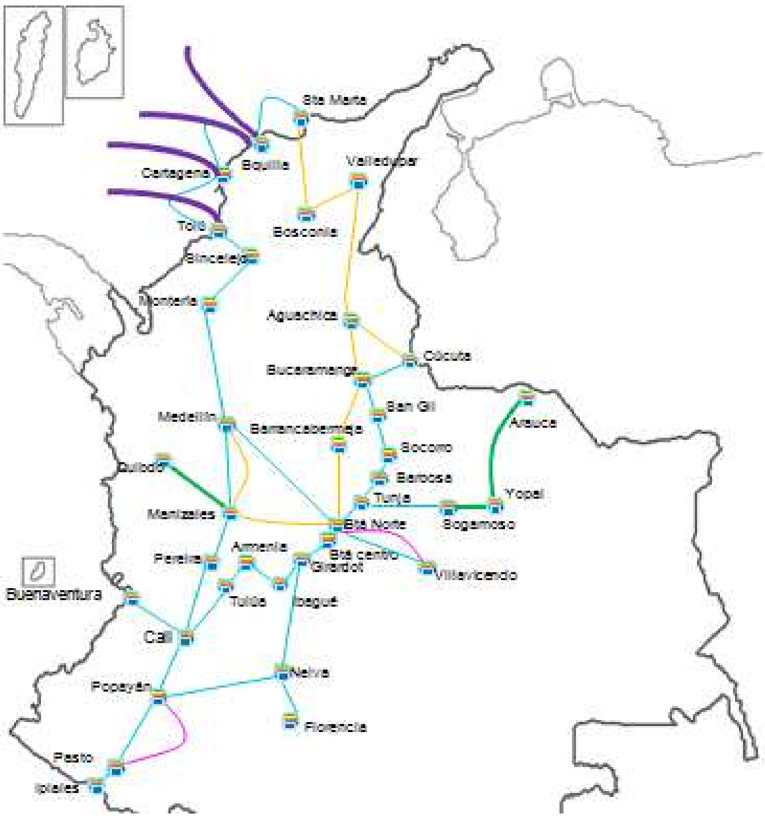
Fixed-line network

As of December 31, 2014, we had approximately 1.4 million fixed lines in service covering approximately 79.7% of the total municipalities in Colombia. Digital systems permit a wide range of voice, text and data applications to be transmitted simultaneously on the same network. In addition, digital technology is more cost effective in terms of maintenance than analog technology.

We own and operate a nationwide fiber optic network, of which we own approximately 7,523 km and operate (with an irrevocable right of capacity use) 3,612 km of single mode optical fiber and a 3-ring configuration with a capacity of 800 Gbps per ring (in terms of 10Gbps Channels). Colombia has had a fiber optic network since 1995, although approximately 23.4% of this network has been constructed since 2010.

Set forth below is a map detailing the geographic distribution of our nationwide fiber optic network.

Fiber Optic Backbone Network



Label	Type of cable	Kilometers
	Cable owned by Telefónica	7,523
	IRU Internexa	356
	IRU Gas Natural	2415
	IRU TV Azteca	841
	International cable	-
	Total	**11,135**

We provide Internet broadband service using ADSL technology. As of December 31, 2014, our network had approximately 2,490 Digital Subscriber Line Access Multiplexers, or DSLAMs, in 1,147 points of presence, or POPs. In addition, as of December 31, 2014, our network has approximately 1.21 million ADSL2+ ports, of which 94% are IP ports. We use IP MPLS technologies to provide our corporate clients with Internet broadband and connectivity services.

PARAPAT Agreement

In 2003, as part of the reorganization of Telecom, the state-owned telecommunications services provider in Colombia, we executed the PARAPAT Agreement, pursuant to which we acquired the exclusive right to use and operate the telecommunications assets, including the fixed-line network, previously owned by Telecom and certain affiliates of Telecom. In exchange for this right, we agreed to make the PARAPAT Payment Obligations, first directly to Telecom and its affiliated companies and, since December 2005, to the PARAPAT. The PARAPAT Payment Obligations are used by the PARAPAT to fund the obligations of the liquidated companies, including the payment of the outstanding pension obligations to the former employees of Telecom and certain affiliates of Telecom.

Background

During 2003, the Colombian government undertook a reorganization of the telecommunications services provided at the time by Telecom and several of its affiliates, then known as the *Teleasociadas*. We were created on June 13, 2003, pursuant to Decree 1616 of 2003, to assume Telecom's operations, and on August 13, 2003, it entered into the *Contrato de Explotación de Bienes, Activos y Derechos* with Telecom and the *Teleasociadas*, or the Original PARAPAT Agreement. The purpose of the Original PARAPAT Agreement was to:

- grant CT the exclusive right to use the PARAPAT Assets to provide telecommunications services in Colombia;

- set forth the annual amount to be paid by CT to Telecom and the *Teleasociadas* as consideration for the use of the PARAPAT Assets (referred to as the PARAPAT Payment Obligations in this offering memorandum);

- require CT to manage and continue the performance of the agreements and contracts to which Telecom or any of the *Teleasociadas* was a party (so long as such agreements were in force at the time the liquidation of Telecom or the respective *Teleasociada* and performance of such agreements was necessary for the continuity of the telecommunications services); and

- require CT to undertake all actions necessary to invoice and collect payment for telecommunications services provided by Telecom and the *Teleasociadas* prior to the execution of the PARAPAT Agreement.

The moneys paid by CT to meet the PARAPAT Payment Obligations would ultimately be used to fund the labor and pension obligations of Telecom and the *Teleasociadas*. The retired and former employees of Telecom and *Teleasociadas* did not have, currently do not have, and will not have, any recourse against us for the labor and pension obligations owed to them.

The PARAPAT, in turn, was incorporated on December 29, 2005 as an independent trust. The PARAPAT is currently managed by Fiduagraria S.A., a Colombian state-owned trust company. The purpose of the PARAPAT was to:

- receive and hold the PARAPAT Assets;

- assume the contractual rights, obligations and position of Telecom and the *Teleasociadas* under the Original PARAPAT Agreement; and

- make payments to PAR *(Patrimonio Autónomo de Remanentes)* and PAP *(Patromonio Autónomo de Pensiones)*, which are independent trusts incorporated in Colombia for the purpose of paying amounts required in connection with the obligations related to the liquidation of Telecom and the *Teleasociadas*. See "—Assignment of the PARAPAT Agreement to PARAPAT." Telecom and the *Teleasociadas* assigned all their rights and interest under the Original PARAPAT Agreement to PARAPAT on December 29, 2005.

Original PARAPAT Agreement

The Original PARAPAT Agreement was entered into between Telecom and the *Teleasociadas*, on the one hand, and CT, on the other hand, on August 13, 2003.

Under the terms of the Original PARAPAT Agreement, CT was required to:

- pay the PARAPAT Payment to Telecom and the *Teleasociadas*;
- use the PARAPAT Assets to provide telecommunications services in Colombia;
- use and operate, in an independent and professional manner, the PARAPAT Assets;
- perform Telecom's biannual investment program (*Plan Bianual*) in effect as of the date of the agreement with respect to maintenance and replacement of telephony networks used by low-income populations. As of the date of this offering memorandum, there are no outstanding obligations in this regard;
- maintain, in good condition and in an adequate state of operation, the PARAPAT Assets and inform PARAPAT of any destruction or loss of PARAPAT Assets for reasons beyond its control, as unless a dispute arose in such regard, damaged or lost assets would no longer be deemed to be covered by the PARAPAT Agreement;
- undertake the improvements or expansions required for an adequate provision of telecommunications services;
- acquire and maintain adequate insurance policies for the PARAPAT Assets;
- perform the obligations of Telecom and the *Teleasociadas* under the agreements entered into by these entities prior to their liquidation, to the extent performance of those agreements was necessary for the continuity of the telecommunications services in Colombia; and
- transfer to Telecom and the *Teleasociadas* certain monies received by CT on their behalf, which amounts corresponded to services provided by Telecom and the *Teleasociadas* prior to their liquidation. As of the date of this offering memorandum, there are no outstanding obligations of CT in this regard.

The main obligations of Telecom and the *Teleasociadas* under the Original PARAPAT Agreement were to:

- grant CT the exclusive right to use the PARAPAT Assets;
- enter into a trust agreement whereby the PARAPAT would be created;
- transfer the PARAPAT Assets to PARAPAT;
- allow CT to continue with the performance of Telecom's biannual investment program; and
- assign the Original PARAPAT Agreement to PARAPAT upon transfer of the PARAPAT Assets to PARAPAT.

Pursuant to the Original PARAPAT Agreement, CT was entitled to (i) the exclusive right to use the PARAPAT Assets; (ii) receive monies from the Colombian government for the purposes of compliance with Telecom's biannual investment program; and (iii) receive payments from Telecom and the *Teleasociadas* with respect to certain services rendered to such entities by CT thereunder. The term of the Original PARAPAT Agreement was 17 years.

The PARAPAT Payment Obligations payable by CT during a given year under the Original PARAPAT Agreement were calculated and payable on a bimonthly basis in six installments.

Amendment No. 1 to PARAPAT Agreement

On December 1, 2004, CT, Telecom, and the *Teleasociadas* entered into an amendment to the Original PARAPAT Agreement, or Amendment No. 1, to include an additional telecommunications provider, Telesantamarta S.A. ESP, as a *Teleasociada*.

Assignment of the PARAPAT Agreement to PARAPAT

Telecom and the *Teleasociadas* entered into an assignment agreement with PARAPAT on December 29, 2005, pursuant to which Telecom and the *Teleasociadas* ceased to be a party to the Original PARAPAT Agreement (as amended pursuant to Amendment No. 1, or the 2005 Amended PARAPAT Agreement) and all their rights and interests thereunder were transferred to PARAPAT.

Amendment No. 2 to PARAPAT Agreement

In 2005, the Colombian government carried out an evaluation of CT's business model in light of the changes in the telecommunications industry and market trends between 2003 and 2005. To ensure the long-term sustainability of CT's business model and to adjust it to market trends, the Colombian government decided to identify a strategic partner that would inject capital to the company and provide access to mobile services. As a result of this process, Telefónica acquired a controlling stake in CT in 2006. Telefónica contributed COP$853,577 million to the capital of CT and caused TEMCO to enter into a collaboration agreement with CT.

In connection with the capitalization of CT: (i) the Republic of Colombia, certain minority shareholders and Telefónica Internacional executed the Investment Agreement; (ii) CT and PARAPAT entered into an amendment to the 2005 Amended PARAPAT Agreement, or Amendment No. 2, dated April 21, 2006 (the 2005 Amended PARAPAT Agreement, as amended by Amendment No. 2, is referred to in this offering memorandum as the 2006 Amended PARAPAT Agreement); and (iii) Telefónica Empresas Colombia S.A., a subsidiary of Telefónica Internacional, was merged with and into CT and Telefónica Internacional's equity interest in CT increased to 52.03%. For a description of the Investment Agreement, see "Principal Shareholders- Investment Agreement with the Republic of Colombia."

The main provisions of Amendment No. 2 included the following:

- CT acquired the right to receive, upon termination of the 2006 Amended PARAPAT Agreement and payment of all the PARAPAT Payment Obligations, all title and ownership over the PARAPAT Assets;
- the amount of the PARAPAT Payment Obligations was adjusted;
- the term of the 2005 Amended PARAPAT Agreement was extended through 2022; and
- PARAPAT agreed to indemnify CT in the event of any claim or suit initiated by a third party against CT in connection with the pension obligations of Telecom and the *Teleasociadas*.

Amendment No. 3 to PARAPAT Agreement

On March 30, 2012, and in connection with the TEMCO Merger, CT, PARAPAT, TEMCO and the Republic of Colombia entered into an amendment to the 2006 Amended PARAPAT Agreement, or Amendment No. 3.

Pursuant to Amendment No.3:

- the Republic of Colombia and TEMCO agreed to assume all of CT's PARAPAT Payment Obligations for any amounts becoming due after March 30, 2012;

- the Republic of Colombia agreed to assume CT's PARAPAT Payment Obligations in an amount equal to 47.9665396% of all future PARAPAT Payment Obligations;

- TEMCO assumed CT's PARAPAT Payment Obligations in an amount equal to 52.0334604% of all future PARAPAT Payment Obligations;

- upon the consummation of the TEMCO Merger: (i) the obligations assumed by the Republic of Colombia would be deemed to be independent and separate from the PARAPAT Agreement, such that any payment default by the Republic of Colombia would not affect our rights under the PARAPAT Agreement; and (ii) CT, as successor entity under the TEMCO Merger, would acquire the obligations assumed by TEMCO under Amendment No. 3; and

- the PARAPAT Payment Obligation for 2012 would be equal to 1.04 times the result of COP$480,000 million multiplied by the quotient of IPC for 2011 and IPC for 2005. For a detailed description of the calculation of PARAPAT Payment Obligations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations— Contractual Obligations and Commitments—PARAPAT Payment Obligations."

Pursuant to the PARAPAT Agreement, as currently in force and effect, the PARAPAT Assets will be transferred to us upon payment of the last PARAPAT Payment Obligation, which is scheduled to be paid in the second semester of 2028.

Payment agreement with PARAPAT

As of March 30, 2012, the total amount past due by CT under the PARAPAT Agreement amounted to COP$664,171 million, of which COP$664,171 million corresponded to past-due PARAPAT Payment Obligations and COP$103,562 million to default interest at a rate of 26.37% *per annum*. CT and PARAPAT entered into the PARAPAT Payment Agreement dated on March 30, 2012, pursuant to which we agreed to pay all short-term liabilities under the PARAPAT Agreement as of such date.

Pursuant to the PARAPAT Payment Agreement, the past-due PARAPAT Payment Obligations were paid as follows: (1) COP$266,000 million were paid on March 30, 2012, (2) COP$19,977 million corresponding to amounts owed by the MINTIC to CT in connection with subsidies shortfall and paid directly to PARAPAT by MINTIC on November 1, November 2 and December 19 of 2011; (3) COP$246,805 million paid in two equal semi-annual installments payable in September 2012 and March 2013; and (4) the remaining COP$131,389 million were paid in March 2013. With respect to the default interest, this was paid as follows: the accrual default interest as of September 2012 was paid together with the first semi-annual installment payable in September 2012, and the accrual default interest from September 2012 until March 2013 was paid together with the second semi-annual installment payable in March 2013.

Restructuring Agreement with PARAPAT

On March 30, 2012, TEMCO and PARAPAT also executed the PARAPAT Restructuring Agreement, under which a new payment schedule was agreed to with respect to the portion of CT's PARAPAT Payment Obligations assumed by TEMCO pursuant to the terms of the amendment to the PARAPAT Agreement executed on March 30, 2012, but excluding amounts that were past due as of such date; amounts due as of March 30, 2012 were covered by the payment agreement described under "—Payment agreement with PARAPAT" above.

Property, Plant and Equipment

As of December 31, 2014, the net book value of our property, plant and equipment was COP$3,295,776 million (U.S.$1,377.6 million). Our mobile network requires several types of equipment, such as bases, controllers, microcells, distributed antenna systems and lines for several purposes, including transmission (for the interconnection and communication between devices), software (for support of the different technologies of our network), switched core (for control, transfer and forward voice and data services), management (for the operation, monitoring and supervision of each service) and radio access network (for delivering voice and data services to the client). We own all of the equipment, other elements and service platforms.

We own numerous properties, including base transceiver stations and switching equipment and towers. As of December 31, 2014, we owned 2,575 technical sites, including transmission cells, switches and repeat stations.

Intellectual Property

We own numerous trademarks and other intellectual property rights in Colombia. In addition, we license numerous patents, service marks, trademarks and other intellectual property owned by Telefónica, such as the names *Movistar* and *Telefónica*. Our services often use the intellectual property of third parties, such as ring tones, text games, video games, wallpapers or screensavers, and licensed software. In total, these licenses and our copyrights, patents, trademarks and service marks are of material importance to the business.

These contracts contain clauses regarding mutual responsibility and indemnity obligations in cases of intellectual property right infringement. Telefónica may in the future receive claims that it, we, or third parties from whom we license or purchase goods or services, have infringed on the intellectual property of others. If these claims are successful, Telefónica could be forced to pay significant damages or stop selling certain products or services or stop using certain trademarks.

Employees

Our employees are an important component of our customers' service experience. As such, we have made significant investments in the development of employee recruiting, training and retention programs and constantly strive to improve our work environment.

As of December 31, 2014, we had 4,110 full-time employees. The table below sets forth the total number of employees as of the date indicated, and the percent change from December 31 of the preceding year.

	Number of employees	% Change
December 31, 2012	4,168	(0.8)%
December 31, 2013	3,972	(4.7)%
December 31, 2014	4,110	3.5%

We maintain good relations with our employees, and are not currently subject to any material labor claims by current and previous employees.

Employee Benefits

Colombian law requires that employers provide mandatory coverage of labor risk and workers' compensation insurance. Labor risk insurance consists of public and private policies which aim to prevent or provide care for workers that are affected by occupational hazard, injury or illness arising from their professional activity. Labor risk insurance coverage and workers' compensation are offered in Colombia by public entities and private life insurers that have obtained previous authorization from SFC. The authorized providers of labor risk and workers' compensation services in Colombia are known as Labor Risk Administrators (*Administradora de Riesgos Laborales*, or ARLs).

This system offers comprehensive coverage that ensures the prevention of risk and recognizes and pays for both health services and economic benefits, while at the same time mitigating possible occupational health claims. Employers are responsible for paying government-imposed fees to support this system.

Colombian law also requires mandatory social security health coverage. The social security health scheme is administered through designated Health Care Promoting Entities (*Entidades Promotoras de Salud*, or EPSs). By law, social security includes the coverage of health care insurance and the recognition and payment of health and maternity leaves. The social security system is controlled and monitored by the Colombian government, and financed through contributions made by employers, workers and independent contractors.

Mandatory health insurance coverage in Colombia is provided pursuant to the Mandatory Health Plan (*Plan Obligatorio de Salud*), which details the procedures, supplies and medicines to which the public has the right of access. Minimum health benefits are provided to the Colombian public, regardless of the economic status of the insured or their ability to pay insurance premiums.

Colombian law also regulates a mandatory pension scheme, which is administered by public or private Pension Fund Managers. The pension scheme provides old age, disability and survivors' pensions for those covered through the system. Coverage related to the disabled and survivors is implemented through the mandatory pension scheme if originated in nonprofessional accidents or through sickness. Professional risk insurance covers labor accidents and diseases suffered during employment. Affiliation with the pension scheme is mandatory for all Colombians who earn at least a minimum wage. The pension scheme is controlled and monitored by the Colombian government, and financed through contributions made by employers, workers and independent contractors.

We provide life insurance coverage to our employees as an additional benefit, which we obtain from the insurance market on reasonable economic terms. These life insurance policies include basic coverage of 24 times the salary of each employee, along with additional coverage for temporary and permanent disability, accidental death coverage of 48 times the salary of the employee, hospitalization, serious illness and funeral assistance, among others.

Environmental Issues

We are currently unaware of any material environmental liabilities or other material environmental issues relating to our properties or operations and anticipate no material expenditures for compliance with environmental laws or regulations.

Telefónica maintains an Environmental Management System (*Sistema de Gestión Ambiental*), designed to ensure that Telefónica and its subsidiaries are in compliance with all environmental law requirements as well as identifying environmental concerns and new environmental programs in which to participate.

Telefonica has an ISO 14001 certificate for its mobile and fixed-line operations, which expires in 2018.

Insurance

Our insurance strategy is to achieve efficient protection against any threat, impediment, obstacle or demand which may impede our economic, financial and service goals. In order to meet this objective, we dedicate our efforts and resources to ensure that we are protected against the various insurable risks Telefónica incurs in conducting its activities. The policies which cover our material risks include:

- *All-Risk Material Damage and Business Interruption*. These policies cover all risks related to property damage, injury caused by company assets (buildings, equipment, infrastructure and networks) and the loss of benefits that could be generated by business interruption. This policy also provides coverage for employee defalcation.

- *General Civil Liability*. These policies provide coverage for property damage caused to third parties and any economic damage resulting from conducting our activities.

Our insurance policies are underwritten by the Telefónica group's insurance companies, Casiopea Re S.A., or Casiopea Re, a reinsurer, and Pleyade, an insurance and reinsurance broker. See "Related Party Transactions." Under global insurance programs and definition of the principal protection schemes, these insurance companies facilitate the renewal of insurance policies at reasonably less expensive costs and with standards of competence and coverage which are better than those available locally. These insurance policies are renewed annually and the insurance limits are adjusted and established in accordance with the risk levels involved.

Legal Proceedings

We are party to certain legal proceedings arising in the normal course of our business, including civil, administrative, tax, social security, labor, governmental and arbitration proceedings. As of December 31, 2014, the estimated amount in controversy for these proceedings against us totaled COP$1,917,520 million, for which we have established a total provision of COP$44,333 million as of that date.

Set forth below is a detailed breakdown of our proceedings deemed as probable losses as of December 31, 2014.

Type of Action	Number of Proceedings	Total Amount in Controversy	Provision
		(in millions of *pesos*)	
Short Term			
Petitions, complaints and claims	442	21,935	21,935
Labor	1	3,734	3,734
	443	25,669	25,669
Long Term			
Tax(1)	91	2,972	2,972
Labor	97	3,650	3,650
Administrative Investigation	12	4,801	4,801
Executive proceedings	4	1,282	1,282
Reparación directa de cumplimiento	2	482	482
Ordinary civil proceedings	7	5,181	5,181
Administrative penalty	6	295	295
Incentives and class actions	1	1	1
	220	18,664	18,664
Total	**663**	**44,333**	**44,333**

(1) Proceedings with various municipalities as a result of liquidation of public lighting tax capacity.

Class Actions

In April 2006, a class action proceeding was filed with Administrative Court 28 of Bogotá against us (including us as successor by merger to TEMCO) in connection with the pricing structure in effect between November 1998 and November 2005 for our mobile and fixed-line services. The plaintiffs seek damages of COP$1,110 million claiming that we overcharged our customers during this time period. Based on the opinion of our counsel, the probability of loss is remote with respect to this proceeding.

On October 8, 2010, we (as successor by merger to TEMCO) received notice of a class action whereby the plaintiffs allege that mobile telephone operators, including Colombia Móvil and Claro Colombia, do not verify the identity of subscribers when issuing telephone lines, and do not provide the information of subscribers making certain calls. The plaintiffs seek damages and claim that we have not taken appropriate measures to prevent extortion and customer identity theft. We estimate that the portion of the damages claimed by the plaintiffs that would be payable by us would amount to COP$468,601 million. Based on the opinion of our counsel, the probability of loss is possible with respect to this proceeding, and a provision has been recorded in our memorandum accounts.

Other Proceedings

On December 1, 2006, we received notice of a proceeding filed by Konvoz S.A., an entity in receivership. The plaintiffs claim COP$10,000 million in damages as a result of allegedly secret traffic tests conducted by Telecom, our predecessor, which the plaintiffs claim resulted in MINTIC revoking their license to provide telecommunications services. Based on the opinion of our counsel, the probability of loss is remote.

On August 21, 2009, a proceeding was filed by us (as successor by merger to TEMCO) against ETB in the Third Section of the Administrative Appellate Court of the Judicial District of Cundinamarca. We assert that ETB owes it interconnection charges in the amount of COP$41,273 million based on international calls from June 2002 to September 2004. This proceeding is in addition to other proceedings against ETB in the aggregate amount of

COP$134,610 million. Our counsel has not evaluated the probability of loss, as we are plaintiffs as successors to TEMCO.

On July 3, 2012, we received notice of an arbitration proceeding filed against us by ETB in the aggregate amount of COP$37,681 million. ETB seeks damages in connection with the breach of contract for access, use and interconnection charges under the Sender Keeps All system in place since April 2002. Specifically, ETB alleges that we and our predecessors have sent more traffic to ETB's networks than ETB has sent to our networks, and, therefore, that we owe ETB more than we have paid under the interconnection agreement. Based on the opinion of our counsel, the probability of loss is remote with respect to this proceeding. On October 14, 2014, the arbitration tribunal issued a final non-appealable decision favorable to us and dismissed ETB's claims. On October 28, 2014, ETB requested the annulment of such decision before the Colombian Council of State (*Consejo de Estado de Colombia*). As of the date of this offering memorandum, the Colombian Council of State had not decided if it would hear this request and we had not been notified of the commencement of such proceeding. If the decision issued by the arbitration tribunal is annulled, ETB will be able to initiate a new arbitration proceeding.

On June 20, 2011, we (as successor by merger to TEMCO) received notice of a proceeding filed by Empresas Municipales de Cali against the CRC and TEMCO in the aggregate amount of COP$8,114 million. The plaintiff seeks charges allegedly owed under certain interconnection agreements from April 2002 to February 2009 as a consequence of the repeal of the relevant CRC regulation in 2002. Based on the opinion of our counsel, the probability of loss is possible with respect to this proceeding, and a provision has been recorded in our memorandum accounts.

Publinet Com Ltda

On March 13, 2012, Publinet Com Ltda filed a breach of contract claim against us regarding hosting the network *Mundial Internet*, which we entered into on April 25, 2001. The claim alleges that we did not allow the plaintiff to install equipment for the network in accordance with the technical and safety parameters described in the contract. The plaintiff claims payment of damages for values in an amount greater than the access charges (paid per minute) from April 24, 2002 through February 4, 2011, in a total amount of COP$81,403 million. Based on the opinion of our counsel, the probability of loss is remote, as the plaintiff may have no grounds for its claim because the plaintiff refused to allow the equipment in question to be replaced without justification. In addition, in connection with this claim Publinet Com Ltda requested the seizure of our assets in an amount of COP$100,000 million. We have appealed this request, which currently is under review before the tribunal.

There are no other judicial or administrative proceedings pending or threatened of which we are aware which may have a material adverse effect on our financial position or profitability. For a detailed description of our provisions for contingencies, see note 29 to our audited financial statements.

MANAGEMENT

The business address of our management is Transversal 60 No. 114 A-55 Edificio Corporativo, Bogotá D.C., Colombia.

Board of Directors

Our Board of Directors is responsible for establishing our general business policies and guidelines, as well as our long-term strategy. Pursuant to our by-laws, our Board of Directors consists of at least ten principal members and their respective personal alternates, which we collectively refer to as Directors. At least three of our Directors and their respective alternates must be independent Directors in accordance with Colombian securities laws, see "—Corporate Governance." Alternate Directors attend Board meetings in place of their respective principal Director in the event such principal Director is unable to attend a particular meeting. Alternate Directors may be summoned to Board meetings, but they have no voting rights at meetings where their respective principal Directors are present.

According to our by-laws and Colombian law, Directors are elected at the annual shareholders' meeting for two-year terms in accordance with an electoral quota voting system, pursuant to which the number of votes required to fill each board position is calculated by dividing the number of eligible votes at a shareholders' meeting by the number of open board positions. However, Directors may be elected without an electoral quota voting system when there is unanimity and they may be reelected indefinitely. The election of the Directors is also subject to the provisions of the Investment Agreement, see "Principal Shareholders—Investment Agreement with the Republic of Colombia." The compensation of the members of our Board of Directors is set by our shareholders at the annual general shareholders' meeting.

Our Board of Directors is responsible for, among other things, appointing our President and our executive officers, determining our company's internal structure and setting forth compensation guidelines for our employees and officers.

Pursuant to our by-laws, our Board of Directors shall meet at least every two months. The Board may also meet on an extraordinary basis when called by our Board of Directors, our Executive President, the general secretary, the statutory auditor or any two other principal Directors. A Board of Directors meeting requires a quorum of at least six Directors, and decisions are approved with a majority of the members present in the respective meeting. Colombian law also allows our Board of Directors to make decisions by written resolution in lieu of a meeting if each principal Director submits a written vote with respect to the items in such resolution.

The following decisions require the affirmative vote of all the Directors nominated by the Republic of Colombia and certain minority government-owned shareholders:

- execution of agreements with shareholders owning 20.0% or more of our outstanding capital stock, or their affiliates, provided that no such affirmative vote is required with respect to (i) agreements entered into with affiliates of Telefónica pursuant to contractual procedures that provide for the selection of the respective contractor through an objective evaluation of bids, and (ii) agreements entered into by us on an arm's-length basis;

- our incurrence of additional indebtedness, in the event (i) our aggregate financial indebtedness (*endeudamiento financiero*) exceeds our EBITDA for the immediately preceding fiscal year, or (ii) the indebtedness to be incurred by us exceeds our EBITDA for the previous fiscal year, subject to certain exceptions;

- execution of any agreement (other than a financing agreement) for an amount in excess of U.S.$40.0 million, or its equivalent in other currencies;

- approval of audit and risk management plans;

- investments in (i) fixed assets located outside Colombia, or (ii) equity investments in entities domiciled outside of Colombia, except that we may pledge our assets to secure our obligations with the favorable vote of the majority of our Directors; and

- sales or pledges of assets in an amount greater than U.S.$10 million, or its equivalent in other currencies.

None of the service contracts of any of our Directors contains provisions for benefits upon termination of such director's services.

The following table sets forth certain information with respect to the current members of our board of directors and their alternates.

Name	Position	Member Since
Alfonso Gómez Palacio	Principal	December 2006
Ernesto Daniel Gardeliano	Alternate	March 2013
Santiago Fernández Valbuena	Principal	October 2011
Sebastián Urban Muñoz	Alternate	March 2013
Eduardo Fernando Caride	Principal	October 2010
Luis Ángel Prendes	Alternate	January 2014
Ariel Ricardo Pontón	Principal	August 2012
Manuel Crespo de la Mata	Alternate	August 2012
Martha Elena Ruiz Díaz-Granados	Principal	August 2012
Fabián Andrés Hernández Ramírez	Alternate	August 2012
Javier Azqueta Sánchez-Arjona(1)	Principal	February 2007
Rafael Oliva García(1)	Alternate	August 2012
Pedro Ramón y Cajal Agüeras(1)	Principal	October 2010
Manuel Fabio Echeverri Correa(1)	Alternate	June 2003
Mauricio Cárdenas Santa María	Principal	October 2012
Jose Mauricio Rodríguez Múnera	Alternate	January 2014
María Lorena Gutierrez Moreno	Principal	January 2014
Cristina Plazas Michelsen	Alternate	January 2014
Martha Cediel de Peña(1)	Principal	August 2012
Mauricio Alberto Campillo Orozco(1)	Alternate	March 2013

(1) Independent members.

We summarize below certain biographical information regarding the current members of our Board of Directors.

Alfonso Gómez Palacio. Mr. Gómez has served as our principal Director since December 2006, and as our Executive President and President of the Board of Directors since February 2007. Previously, he participated in the liquidation process of Telecom and our incorporation in 2003, and the acquisition by Telefónica of a controlling stake in our capital stock in 2006. Mr. Gómez has 15 years of experience in the telecommunications industry in Latin America. He holds a law degree from the *Universidad Javeriana* (Bogotá, Colombia) and has a specialization in political science from *Loras College* (Dubuque, Iowa) and in tax law from the *Universidad del Rosario* (Bogotá, Colombia).

Ernesto Daniel Gardeliano: Mr. Gardeliano has served as our alternate Director since March 2013. He currently is the Planner and Control Officer of Telefónica. Previously, he served administrative Officer and executive director in Movicom BellSouth, regional director of Telefonica Móviles (focusing on Argentina, Chile and Uruguay) and as executive director of Vivo in Brazil. He has also served as Chief Executive Officer of Movistar in Argentina and Uruguay, and as Chief of Strategy and New Businesses of Telefónica Digital. He holds a bachelor's degree in accounting from *Universidad de Buenos Aires* (Buenos Aires, Argentina) and a post-graduate degree in senior management from *Universidad Austral* (Buenos Aires, Argentina).

Santiago Fernández Valbuena. Mr. Fernández has served as our principal Director since October 2011. He currently is the Strategy Director of Telefónica. Previously, he served as Chief Financial Officer of Telefónica, where he was also in charge of purchases, human resources, corporate development and internal audit. Mr. Fernández has 15 years of experience in the telecommunications industry. He holds a bachelor's degree in economics from the *Universidad Complutense* (Madrid, Spain), and a master's degree and a doctorate degree in economics from Northeastern University (Boston, Massachusetts).

Sebatian Urban: Mr. Urban has served as our principal Director since March 2013. He currently is the Director of Strategic Planning of the Telefónica group. Previously, he has served as fund manager in BBVA and portfolio manager in Norges Bank focusing in telecommunications, as Director of Telecommunications—Europe at Lehman Brothers – London and later as Executive Director of Telecommunications at Nomura focusing in Europe, Middle East and Asia. He holds a degree in telecommunications engineering from *Universidad de Sevilla* (Sevilla, Spain) and is a Chartered Financial Analyst certified by the CFA Institute.

Eduardo Fernando Caride. Mr. Caride has served as our principal Director since October 2010. He currently is the Chief Executive Officer of Telefónica Hipanoamérica. Previously, he has served as Director of Operations at Telefónica Internacional and was responsible for the fixed and mobile operations of Telefónica Internacional in Peru, Ecuador, Colombia, Chile, Uruguay and Argentina. Mr. Caride joined the Telefónica group in 1990. He has previously served as General Manager of Telefónica Argentina, Executive President of Telefónica Empresas y Energía, President of Telefónica Móviles in Argentina, Chile and Uruguay. Mr. Caride was also the leader in the acquisition and integration of Movicom Bellsouth in Argentina, Chile and Uruguay. Mr. Caride has 22 years of experience in the telecommunications industry in Latin America. He holds a bachelor's degree in business administration and is a certified public accountant from the *Universidad de Buenos Aires* (Buenos Aires, Argentina).

Luis Angel Prendes. Mr. Prendes has served as our alternate Director since January 2014. He currently is the General Counsel of Telefónica. Previously, he was an associate in the Madrid office of the international law firm Squire, Sanders & Dempsey and an associate in the Spanish law firm Melchor de las Heras, Albiñana & Suárez de Lezo. He has also served as senior counsel and director of Terra Networks Colombia S.A., or Terra Networks, a member of the boards of directors of Telefónica Móviles and Telefónica Internacional, and as General Counsel of Telefónica Móviles Peru. He holds a law degree from the *Universidad de Oviedo* (Oviedo, Spain) and a master's degree from Brigham Young University (Provo, Utah).

Ariel Ricardo Pontón. Mr. Pontón has served as our Chief Executive Officer since 2009 and as our principal Director since August 2012. Previously, he served as Commercial Director of Telefónica Móviles Argentina S.A. and was responsible for distribution channels, planning, management and commercial logistics within the merger process of Telefónica Argentina and BellSouth Argentina. Mr. Pontón has 23 years of experience in the telecommunications industry in Latin America. He holds a degree in electronic engineering from the *Universidad Tecnológica Nacional* (Buenos Aires, Argentina).

Manuel Crespo de la Mata. Mr. Crespo has served as our alternate Director since August 2012. He is currently the General Secretary of Telefónica Latinoamérica, being responsible of all legal matters related to intellectual property and insurance. Previously, he served as Legal Director of Telefónica Recursos Globales and Mercantile Director and Technical Secretary Director of Telefónica. Mr. Crespo has eight years of experience in the telecommunications industry. He holds a law degree from the *Universidad Complutense* (Madrid, Spain).

Martha Elena Ruiz Diaz-Granados. Ms. Ruiz has served as our General Counsel since 2007 and as our principal Director since August 2012. Previously, she served as General Secretary of TEMCO and Legal Director at BellSouth Colombia S.A. Ms. Ruiz has 14 years of experience in the telecommunications industry in Colombia. She was involved in the acquisition of Celomóvil S.A. by BellSouth and the merger of Celumóvil and Cocelco. She holds a bachelor's degree in law and political science from the *Universidad Externado de Colombia* (Bogotá, Colombia) and holds a master's degree in economic law from the *Universidad Javeriana* (Bogotá, Colombia).

Fabián Andrés Hernández Ramirez. Mr. Hernández has served as our alternate Director since August 2012. He currently is our Chief Institutional Relations, Foundation and Regulation Officer and heads the Telefónica Foundation. Previously, he served as Legal Manager of Telecom. He participated in the liquidation process of Telecom and our incorporation in 2003 and the acquisition by Telefónica of a controlling stake in our capital stock in 2006. Mr. Hernández has 17 years of experience in the telecommunications industry in Colombia. He holds a law degree from the *Pontificia Unversidad Javeriana* (Bogotá, Colombia) and a specialization in law and business from the *Universidad Externado de Colombia* (Bogotá, Colombia).

Javier Azqueta Sánchez-Arjona. Mr. Azqueta-Arjona has served has served as our principal Director since February 2007. He currently is the General Director of Beta Capital S.A., and is a member of the board of directors of Cuidasur S.A. and Edificios Eguiluz S.A. Mr. Azqueta-Arjona has also served as Financial Director of Papelera de Araxes, S.A., a paper mill located in Tolosa (Guipúzcoa, Spain). He holds a bachelor's degree from the *Universidad Complutense* (Madrid, Spain).

Rafael Oliva García. Mr. Oliva has served as an Alternate Director since August 2012. He currently is a member of the board of directors of Telefónica Contenidos S.A. Previously, he served as general director of Urex S.A., General Director of Inverban Sociedad de Valores y Bolsa, and Fundraising Director of Citibank Invesbank Spain. He holds a law degree from the *Universidad de Granada* (Spain) with a masters' degree in business management and administration from the *Escuela de Organización Industrial* (Madrid, Spain).

Pedro Ramón Cajal y Agüeras. Mr. Cajal y Agüeras has served as our principal Director since October 2010. He is the founder, president of the executive committee and director of the procedural law department of the Spanish law firm of Ramón y Cajal Abogados. He is a recognized expert in procedural, public and commercial law in Spain. He has also served as director of *Asesoría Jurídica* of the *Delegación de Hacienda* of Barcelona, Spain, and as general vice-director of resources at the Ministry of Finance of Spain. Mr. Cajal y Agüeras is also an arbitrator at the Madrid chamber of commerce and the international chamber of commerce, located in Paris, France. He holds a law degree from the *Universidad de Zaragoza* (Zaragoza, Spain).

Manuel Fabio Echeverri Correa. Mr. Echeverri has served as our alternate Director since June 2003. He currently is an independent consultant. Previously, he served as President of the *Asociación Nacional de Industrias*, a Colombian national industries association and acted as an advisor to the President of Colombia between 2002 and 2005. Mr. Echeverri also served as a member of the board of directors of Ecopetrol S.A. and as deputy manager of the Central Bank. He holds a bachelor's degree in economics from the *Universidad Jorge Tadeo Lozano* (Bogotá, Colombia).

Mauricio Cárdenas Santa María. Mr. Cárdenas has served as our principal Director since October 2012. He currently serves as the Minister of Finance of Colombia. Previously, he served as Minister of Economic Development, Minister of Transport and director of the National Planning Office of Colombia. Mr. Cárdenas also served as Director of the Latin American initiative of the Brookings Institute between 2008 and 2011; as Executive Director of the *Fundación para la Educación Superior y el Desarrollo* of Colombia and as General Manager of Empresa de Energía de Bogotá S.A. ESP. He holds a bachelor's and master's degree in economics from the *Universidad de Los Andes* (Bogotá, Colombia) and a doctorate in economics from *University of California, Berkeley*.

Jose Mauricio Rodríguez Múnera. Mr. Rodríguez has served as our alternate Director since January 2014. He currently is an independent consultant. Previously, he served as member of the board of directors of *El Tiempo*, a Colombian newspaper, and of the *Colegio de Estudios Superiores de Administración—CESA* (Bogotá, Colombia). Mr. Rodríguez has also served as professor of finance, economy and business administration at *Universidad de los Andes* (Bogotá, Colombia) and as Ambassador of Colombia to the United Kingdom between 2010 and 2013.

María Lorena Gutierrez Moreno. Mrs. Gutierrez has served as our principal Director since January 2014. She currently is the Minister of Government and Private Sector. Previously, she has served as director of the administrative department of the Colombian presidency, and as Dean of the Business School of *the Universidad de los Andes* (Bogotá, Colombia), where she is also a faculty member. She holds a degree in industrial engineering and a post-graduate degree in finance from the *Universidad de los Andes* (Bogotá, Colombia), and a master's degree and a doctorate from the Freeman School of Business of *Tulane University* (New Orleans, Louisiana).

Cristina Plazas Michelsen. Mrs. Plazas has served as our alternate Director since January 2014. She currently is the director of the *Instituto Colombiano de Bienestar Familiar*, the Colombian government agency for the protection of children and teenagers. Previously, she served as member of the local council of the locality of

Chapinero and of the city of Bogotá. Mrs. Plazas has also served as Secretary of the Presidency of Congress and for the Council of Ministers of Colombia, and as an advisor to the President of Colombia. She holds a law degree from the *Universidad Javeriana* (Bogotá, Colombia).

Martha Cediel de Peña. Mrs. Cediel has served as our principal Director since August 2012. She is currently an independent legal practitioner in Colombia focusing on public contractors, commercial law and litigation and dispute resolution with private and government-owned entities. Previously, Mrs. Cediel served as Deputy Legal Manager and acting Manager of ETB. She holds a law degree from the *Universidad de Los Andes* (Bogotá, Colombia).

Mauricio Alberto Campillo Orozco: Mr. Campillo has served as our alternate Director since March 2013. He is a founding partner and the President of Momentum Consulting Group. Previously, he served as General Secretary, President and Administrative Vice-President of OCCEL Celular, a mobile services company, and as president of Alianza TEAM. He holds a law degree from the *Universidad de Medellín* (Medellín, Colombia) and post-graduate degrees from the *Universidad Pontificia Bolivariana de Medellin* (Medellín, Colombia), the *Instituto Universitari di Estudi Europei* (Turín, Italia), the *Universidad EAFIT* (Medellin, Colombia) and the IE Business School (Madrid, Spain).

Executive President and other Executive Officers

Our Executive President is our legal representative and has three permanent alternates and one alternate for judicial purposes. Our executive officers are our legal representatives and are responsible for our internal organization and day-to-day operations and the implementation of the general policies and guidelines established from time to time by our Board of Directors.

We also have an Executive President, who is also the Chairman of our Board of Directors.

The following table sets forth certain information with respect to the current executive officers:

Name	Position	Year Appointed
Alfonso Gómez Palacio	Executive President	2003
Ariel Ricardo Pontón	Chief Executive Officer	2009
Luis Aldo Martín Fontelles	Chief Commercial Officer	2013
Camilo Aya Caro	Chief Marketing Officer	2012
Francisco Javier Bertrán Zúñiga	Chief Client Relations Officer	2012
Hernán Felipe Cucalón Merchán	Chief Networks Officer	1999
Roberto Arturo Puche Palacio	Chief IT Officer	2003
Juan Carlos Álvarez Echeverri	Chief Management and Human Resources Officer	2003
Daniel López Soler	Chief Strategy and Wholesale Officer	2013
Juan Vicente Martín Fontelles	Chief Companies Officer	2006
Fernando José Verdeja	Chief Administrative and Sales Operations Officer	2010
Darío Fernando Arango Diez	Chief Financial Officer	1996
Martha Elena Ruiz Díaz-Granados	General Counsel	2005
Fabián Andrés Hernández Ramírez	Chief Institutional Relations, Foundation and Regulation Officer	2003
José Ignacio Gargallo del Río	Chief Internal Audit, Intervention and Inspection Officer	2012

We summarize below certain biographical information regarding our current executive officers who are not also our Directors.

Luis Aldo Martin Fontelles. Mr. Martin has served as our Chief Commercial Officer since 2013. Previously, he served as Chief Commercial Officer of O2 in the Czech Republic. Mr. Martin has 11 years of experience in the telecommunications industry in Latin America and three years of experience in the global telecommunications industry. He holds a degree in civil engineering from the *Universidad Católica Argentina* (Buenos Aires, Argentina) and a master's degree in marketing and strategic management from the *Universidad de Ciencias Empresariales y Sociales* (Buenos Aires, Argentina).

Camilo Aya Caro. Mr. Aya has served as our Chief Marketing Officer since 2012. Previously, he served as our Chief Strategy and Wholesale Officer on 2003. Mr. Aya has 11 years of experience in the telecommunications industry in Colombia. He holds a degree in industrial engineering from the *Universidad de los Andes* (Bogotá, Colombia).

Francisco Javier Bertrán Zuñiga. Mr. Bertrán has served as our Chief Client Relations Officer since 2012. Previously, he served as our Quality and Customer Support Director. Mr. Bertrán has 18 years of experience in the telecommunications industry in Latin America. He holds a degree in business administration from the *Universidad Santo Tomás* (Bogotá, Colombia).

Hernán Felipe Cucalón Merchán. Mr. Cucalón has served as our Chief Networks Officer since 1999. Previously, he served as our Technical Director. Mr. Cucalón has 26 years of experience in the telecommunications industry in Latin America. He holds a degree in electronic engineering from the *Universidad del Cauca* (Popayán, Colombia).

Roberto Arturo Puche Palacio. Mr. Puche has served as our Chief IT Officer since 2003. Previously, he served as Chief Financial Officer of Lloyds Bank in Bogotá, Colombia. Mr. Puche has eight years of experience in the telecommunications industry in Latin America. He holds an electronic engineering degree from the *Pontificia Universidad Javeriana* (Bogotá, Colombia).

Juan Carlos Álvarez Echeverri. Mr. Álvarez has served as our Chief Management and Human Resources Officer since 2003. Previously, he served as Director of Labor Relations at Panamco Colombia S.A., a bottling company in Colombia. Mr. Álvarez has ten years of experience in the telecommunications industry in Latin America. He holds a law degree from the *Pontificia Universidad Javeriana* (Bogotá, Colombia).

Daniel López Soler. Mr. López has served as our Chief Strategy and Wholesale Officer since 2013. Previously, he served as our Chief Strategy Officer. Mr. López has 20 years of experience in the telecommunications industry in Colombia. He holds a degree in industrial engineering and a master in business administration from the *Universidad de los Andes* (Bogotá, Colombia).

Juan Vicente Martín Fontelles. Mr. Martín has served as our Chief Companies Officer since 2006. Previously, he served as Commercial Manager of Telefónica. Mr. Martín has 16 years of experience in the telecommunications industry in Latin America. He holds a degree in telecommunications engineering from the *Universidad Politécnica de Valencia* (Valencia, Spain).

Fernando José Verdeja. Mr. Verdeja has served as our Chief Administrative and Sales Operations Officer since 2010. Previously, he served as our Director of Technical Operations. Mr. Verdeja has 20 years of experience in the telecommunications industry in Latin America. He holds a degree in naval machinery engineering from the *Universidad de la Marina Mercante* (Buenos Aires, Argentina).

Darío Fernando Arango Diez. Mr. Arango has served as our Chief Financial Officer since 1996. Previously, he served as Chief Financial Officer of TEMCO and BellSouth Colombia. Mr. Arango has 19 years of experience in the telecommunications industry in Colombia. He holds a bachelor's degree in management from *Universidad EAFIT* (Medellín, Colombia), where he also completed postgraduate studies in information systems.

José Ignacio Gargallo del Rio. Mr. Gargallo has served as our Chief Internal Audit, Intervention and Inspection Officer since 2012. Previously, he served as Chief Internal Audit, Intervention and Inspection Officer of Telefónica Mexico. Mr. Gargallo has 12 years of experience in the telecommunications industry in Latin America. He holds a bachelor's degree in economics and business from *Universidad de Alcalá de Henares* (Madrid, Spain) and a master's degree in financial management and control from the *Instituto de Empresa* (Madrid, Spain).

Statutory Audit Committee

Our by-laws provide for an Statutory Audit Committee, which is in charge of, among other matters, supervising our compliance with internal audit programs and ensuring that our preparation, presentation and disclosure of financial information meets the standards set forth in applicable laws and regulations. Our Statutory Audit Committee is composed of five Directors appointed for one-year terms, designated as follows:

- three principal board members deemed to be independent directors as per Colombian regulations;
- one principal or alternate board member, to be elected by all government-owned shareholders; and
- one principal or alternate board member, to be appointed by the remaining shareholders.

The president of our Statutory Audit Committee shall be an independent board member under Colombian securities regulations. All of the decisions of our Statutory Audit Committee are taken by a majority of votes, and meetings are held every three months.

Our Statutory Audit Committee was appointed by our Board of Directors on March 4, 2014. The current members of our Statutory Audit Committee are Alfonso Gómez Palacio, Javier Azqueta Sánchez-Arjona, Pedro Ramón y Cajal Agüeras, Martha Cediel de Peña and José Mauricio Rodríguez Múnera.

Compensation

The aggregate compensation paid by us to all members of our Board of Directors and executive officers for services in all capacities, including share-based remuneration, was COP$17,618 million in 2014. Our executive officers receive benefits, such as medical assistance. In addition, they receive a car, a driver, annual medical tests and life insurance.

Corporate Governance

In support of our strong relationship with our shareholders and investors, on March 27, 2014 we adopted a new Code of Corporate Governance (*Código de Buen Gobierno Corporativo*, or the Governance Code) which applies to our management, employees and shareholders. Our Governance Code contains rules governing our board of directors and shareholders' meetings, composition of our board and designation of independent members, compensation of executive officers, internal controls, risk management, committees of our board of directors, conflicts of interest and social responsibility, among other matters. The Governance Code establishes significant decision-making approval processes, such as the approval by our Board of Directors of transactions with certain of our affiliates, except when they are the result of an objective selection process (*proceso de selección objetiva*) or are executed in the ordinary course of business.

RELATED PARTY TRANSACTIONS

Colombian law sets forth certain restrictions and limitations on transactions carried out with certain related parties, such as directors and senior management of a company, as well as its subsidiaries. The transactions that are limited or prohibited are described in Decree 410 of 1971 (*Código de Comercio de Colombia*, or the Colombian Code of Commerce), as amended by Law 222 of 1995. This law establishes, among other things, the following: (i) subsidiaries must carry out their activities independently and with administrative autonomy; (ii) transactions between the parent company and its subsidiaries or affiliates must be of a real nature and may not differ considerably from standard market conditions, nor be to the detriment of the Republic of Colombia, stockholders or third parties and (iii) subsidiaries may not acquire any shares issued by their parent company.

We engage in a variety of transactions with related parties in the ordinary course of business. Pursuant to our by-laws, every transaction entered into with an affiliate must be reported to our Board of Directors. Furthermore, approval by our Board of Directors, including the affirmative vote of all the Directors nominated by the Republic of Colombia and certain minority government-owned shareholders, is required if the respective affiliate transaction is not entered into under arm's-length conditions. Our by-laws provide for an exception to this requirement for agreements entered into with affiliates of Telefónica pursuant to contractual procedures that provide for the selection of the respective contractor through an objective evaluation of bids. Our Governance Code also requires that, in the case of transactions with related parties in excess of U.S.$50.0 million, our Board of Directors may request certain independent third parties to issue an opinion in order to determine that the corresponding transaction has been entered in market conditions. In addition, the indenture governing our 5.375% senior notes due 2022 contains limitations on our ability to engage in transactions with affiliates.

We believe that we have complied and are in compliance in all material respects with the requirements of the relevant provisions of our by-laws and the Colombian Code of Commerce governing related party transactions with respect to all of our transactions with related parties.

Set forth below are our principal related party transactions.

License Agreement with Telefónica

We (as successor by merger to TEMCO) and Telefónica entered into a non-exclusive trademark licensing agreement, or the License Agreement, on May 31, 2005, as amended on September 19, 2008, pursuant to which Telefónica authorized us to use certain trademarks related to its *Movistar-M* brand, as well as domain names including telefonicamoviles.com.co and telefonicamoviles.com. We are required to pay Telefónica a quarterly fee based on our revenues. The License Agreement provided for an initial term of one year, which is automatically renewed every year unless terminated by either party upon 60-days written notice. The contract automatically terminates upon our change of control. In 2014, we recorded a total expense of COP$48,693 million to Telefónica under the License Agreement. In addition, in 2013 and 2012, we recorded a total expense under the agreement of COP$43,616 million and COP$42,208 million, respectively.

Agreements with Telefónica International Wholesale Services, S.L. and its subsidiaries

We have entered into recurring agreements with Telefónica International Wholesale Services, S.L., or TIWS Spain, and its subsidiary, TIWS Colombia, for services regarding the management of our wholesale voice business, the centralized negotiation of purchase of equipment, use and maintenance of submarine cables, lease of access capacity and for other services related to our operations.

For example, on December 19, 2010, we and TIWS Colombia, entered into an international business services agreement, or the Services Agreement, pursuant to which TIWS Colombia manages our voice wholesale long-distance business by providing certain services, including commercial operation, billing and collections. On January 23, 2014, the Services Agreement was amended in order to reflect the following provisions: (i) the Services Agreement will be in full force and effect until February 1, 2017 and will be automatically renewed for additional one year periods unless terminated by either party upon 30-days written notice; and (ii) we are required to pay TIWS

Colombia U.S.$750,000 during the first year, U.S.$900,000 during the second year, and U.S.$950,000 during the third year, plus an annual variable surcharge which shall be subject to certain performance indicators.

With respect to the transactions with TIWS Spain and TIWS Colombia we recorded a total expense of COP$73,413 million in 2014. In addition, in 2013 and 2012, we recorded a total expense of COP$45,018 million and COP$35,995 million, respectively.

Agreements with Terra Networks

From time to time, we enter into agreements with Terra Networks, a subsidiary of Telefónica Internacional, for the provision of services in connection with certain of our mobile products and content and certain of our corporate clients. In addition, we provide the technology required for the provision of entertainment content by Terra Networks to our subscribers. We made recorded a total expense of COP$1,957 million in 2014 with respect to transactions with Terra Networks. In addition, we recorded a total expense of COP$5,309 million and COP$4,519million in 2013 and 2012, respectively, with respect to transactions with Terra Networks.

Agreement with Media Networks

On January 1, 2010, CT entered into an agreement with Media Networks Latin America S.A.C., or Media Networks, which provides television, satellite Internet and audio-visual, content through DTH. We recorded a total expense of COP$16,574 million in 2014 with respect to this agreement with Media Networks. In addition, we recorded a total expense of COP$13,743 million and COP$11,914 million in 2013 and 2012, respectively, under this agreement.

PARAPAT Agreement

For information regarding the PARAPAT Agreement, see “Business—PARAPAT Agreement” in this offering memorandum.

Investment Agreement with the Republic of Colombian

For information regarding the Investment Agreement, see “Principal Shareholders—Investment Agreement with the Republic of Colombia” in this offering memorandum.

For more information regarding our related party transactions, see note 28 to each of our unaudited and audited, each included elsewhere in this offering memorandum.

PRINCIPAL SHAREHOLDERS

As of December 31, 2014, the aggregate amount of our issued and outstanding capital stock was COP$1,454,870,740,000 represented by 1,454,870,740 common shares, fully subscribed and paid-in, with a par value of COP$1,000 each. Each common share entitles the holder thereof to one vote at our shareholders' meetings.

The following table sets forth certain information concerning actual ownership of our common stock as of the date of this offering memorandum with respect to our shareholders.

Shareholder	Number of Shares of Common Stock	Percentage Beneficial Ownership
Telefónica Internacional.	473,457,094	32.54289752
The Republic of Colombia	436,461,222	30.00000000
Olympic Ltda., en Liquidación	275,603,185	18.94348257
Telefónica	269,339,035	18.51291854
Radio Televisión Nacional de Colombia	10,000	0.00068735
Canal Regional de Televisión Ltda. – TV Andina	200	0.00001375
Latin America Cellular Holdings B.V.	2	0.00000014
Central de Inversiones S.A. – CISA	1	0.00000007
Terra Networks Colombia S.A.S.	1	0.00000007
Total	**1,454,870,740**	**100.00000000**

Olympic Ltda. en Liquidación, Latin America Cellular Holdings B.V., and Terra Networks are wholly owned subsidiaries of Telefónica. Olympic Ltda. en Liquidación is currently undergoing a liquidation procedure in Colombia; upon termination of such procedure, our common shares currently held by Olympic Ltda. en Liquidación will be transferred to Latin America Cellular Holdings B.V. and Telefónica.

Investment Agreement with the Republic of Colombia

On April 18, 2006, the Republic of Colombia, acting through the MHCP, certain government-owned minority shareholders of CT, Telefónica Internacional and us entered into the Investment Agreement in connection with the exercise by Telefónica Internacional of its controlling stake in CT. This agreement was amended on March 30, 2012, in anticipation of the TEMCO Merger. As currently in force and effect, the Investment Agreement sets forth voting obligations and other rules pertaining to our governance, as well as certain tag-along and exit rights for the existing government shareholders, as described below, and the commitment by Telefónica Internacional not to compete with us.

The Investment Agreement provides, among other things, that:

- The existing government shareholders (consisting of the Republic of Colombia and certain government-owned minority shareholders) are entitled to assign their participation in our capital stock (i) to any government-owned entity, in which case they must assign their rights and interest under the Investment Agreement, or (ii) to any other party, subject to applicable Colombian laws and regulations.

- The existing government shareholders are entitled to offer to Telefónica Internacional, and Telefónica Internacional is obligated to purchase, all or part of our shares that the existing government shareholders own upon the occurrence of any of the following events:

  (i) Payment default under the PARAPAT Agreement on two or more installments thereunder; or

  (ii) Our EBITDA growth (CAGR) is lower than 5.75% for the relevant calculation period, *provided* that in the 12 months preceding the shareholders' meeting in which such determination is made: (a) we have undertaken capital expenses exceeding 12.5% of our services income, not taking into account (1) capital expenditures undertaken pursuant to government IT plans and programs, contracted by government-owned entities and paid for with public funds, and (2) capital expenditures undertaken in compliance with legal and regulatory provisions or judicial decisions; (b) we have paid the fee relating to the use of the *Movistar* brand, or any other payment in connection with the use of trademarks of Telefónica Internacional; or (c) we have decreed and/or paid dividends with the affirmative vote of Telefónica Internacional and its affiliates. For these purposes, the first EBITDA growth determination will be made at the 2015 ordinary shareholders' meeting and will be measured as from the end of the 2011 fiscal year, based on *pro forma* financial information, through the end of the 2014 fiscal year. The second EBITDA growth determination will be made at the 2018 ordinary shareholders' meeting and will cover the term between the end of the 2014 fiscal year and the end of the 2017 fiscal year.

For purposes of the Investment Agreement, "EBITDA" means operating income (loss) *plus* the absolute value of (i) fixed assets depreciation expense, *plus* (ii) amortization of deferred assets, *plus* (iii) PARAPAT Payment Obligations, *plus* (iv) extraordinary income from the sale and lease of towers.

- Any transfer or sale of the participation of Telefónica Internacional in our capital stock is subject to the condition that the assignor or purchaser thereof (if not an affiliate of the Telefónica Internacional) (i) becomes a party to the Investment Agreement and assumes the performance of the obligations and duties set forth therein, and (ii) makes an offer to the existing government shareholders to purchase their shares in our capital stock, subject to the same terms and conditions applicable to the sale of Telefónica Internacional's participation in our capital stock.

- Our Board of Directors shall be composed of ten members with their respective alternates. Telefónica Internacional has the right to designate seven members and their alternates as follows: (i) five members, with their alternates, are to be designated by Telefónica Internacional in its sole discretion and (ii) two members, as well as their alternates, must comply with the requirements set forth in applicable securities regulations to be considered to be independent members, and (iii) the existing government shareholders have the right to designate the remaining three principal members and their alternates, provided that at least one principal member, together with its alternate, must be deemed to be an independent member as per the independence standards set forth in Colombian securities regulations.

- In consideration for the partial assumption of our PARAPAT Payment Obligations, the Republic of Colombia has a contingent right to receive additional shares of our capital stock (and without any compensation therefor) depending on our EBITDA growth (CAGR) through 2014. The Republic of Colombia is entitled to received additional shares of our capital stock pursuant to the following general rules:

  - If our EBITDA growth between 2011 and 2014 exceeds 12%, then the Republic of Colombia is entitled to receive a number of shares equal to 1.0% of our capital;

  - If our EBITDA growth between 2011 and 2014 is greater than (but not equal to) 10.0% but lower than, or equal to, 12.0%, then the Republic of Colombia is entitled to receive a number of shares equal to 1.5% of our capital;

  - If our EBITDA growth between 2011 and 2014 is greater than (but not equal to) 6.0% but lower than, or equal to, 10.0%, then the Republic of Colombia is entitled to receive a number of shares equal to 2.5% of our capital; and

  - If our EBITDA growth between 2011 and 2014 is 6% or lower, then the Republic of Colombia is entitled to receive a number of shares equal to 3.0% of our capital.

Based on our results of operations between 2011 and 2014, our EBITDA growth for this period was 9.4% (calculated pursuant to the terms of the Investment Agreement), which corresponds to the range set forth the Investment Agreement that will entitle the Republic of Colombia to receive a number of our common shares equal to 2.5% of our outstanding capital stock. Pursuant to the terms of the Investment Agreement, the Republic of

Colombia is not required to pay any additional consideration in respect of such common stock. We do not expect a change of control to occur solely as a result of the Republic of Colombia receiving additional shares of our capital stock as described above.

- All of our shareholders shall have (i) preemptive rights to subscribe shares in the event we issue new shares, and (ii) a right of first refusal in the event any other shareholder seeks to sell the shares of our capital stock it owns.

- As of January 1, 2013, the existing government shareholders have the right to request that our common shares be listed at the Colombia Stock Exchange (*Bolsa de Valores de Colombia*). As of the date of this offering memorandum, no such request had been submitted by our government-owned shareholders.

- The parties to the Investment Agreement also acquired the obligation to cause us to engage in telecommunications service activities in the municipalities set forth in the Investment Agreement, unless our shareholder's meeting decides otherwise. We continue to provide, telecommunications services in all of such municipalities.

The Investment Agreement is in force and effect until the earlier of (i) December 31, 2028, and (ii) the date on which less than 13.0% of our paid-in capital is owned by the existing government shareholders or by any public entity that has acquired or received shares from any existing government shareholder. The Investment Agreement may also be terminated (a) upon the expiration of our corporate term, as set forth in our by-laws, on December 31, 2092, or (b) if agreed upon by all of the parties to the Investment Agreement.

If Telefónica Internacional breaches any of its obligations under the Investment Agreement, a fifteen-day cure period applies. Upon expiration of the cure period and if the default persists, Telefónica Internacional shall pay fines ranging between U.S.$100,000 and U.S.$500,000 per month, on a pro rata basis, to the existing government shareholders. We do not have any material obligations under the Investment Agreement.

Pursuant to the Investment Agreement, the following decisions taken at our shareholders' meeting require the approval of both Telefónica Internacional and the existing government shareholders:

- Increases or reductions in our authorized capital, except (i) if our net equity is less than 50.0% of our paid-in capital, which is a cause for dissolution of corporations under Colombian law, and such capital increase or reduction is necessary to cure such dissolution cause, or (ii) capital increases that would not result in a reduction of the participation of the existing government shareholders in our capital stock to a figure lower than 13.0% of the paid-in capital of the company;

- Mergers, spin-offs, transformations, our dissolution or winding-up, as well as filing for relief under applicable bankruptcy laws;

- Amendments to our by-laws that provide changes to the structure or corporate powers of our shareholders' meeting or our Board of Directors;

- Amendments to our by-laws that entail changes to the preemptive rights and right of first refusal provided therein in behalf of our shareholders.

- Issuance of shares without subjection to preemptive rights.

- Changes to our corporate purpose;

- The creation of statutory or occasional reserves;

- The issuance of new shares, except for issuances of shares that would not result in a reduction of the participation of the existing government shareholders in our capital stock to a figure lower than 13.0% of our paid-in capital;

- Any repurchase of our shares, as well as the creation of a reserve in order to reacquire shares in CT;
- Changes in our accounting practices that entail an amendment to the end of period financial results;
- Delegation by our shareholders' meeting of any of the powers granted to it by our by-laws;
- The adoption of any measure that results in a reduction of the telecommunications service coverage standards set forth in the Investment Agreement;
- Any amendment to the PARAPAT Agreement; and
- Any amendment to the Investment Agreement.

Participation of the Republic of Colombia in Our Capital Stock

Whenever a company manages public or state-owned funds, it is subject to a fiscal control exercised by the General Comptroller Office (*Contraloría General de la República*, or CGR) and other local and regional fiscal control entities. In our case, as a result of the participation that the Republic of Colombia holds in our capital stock, the CGR is entitled to audit us and to commence official administrative investigations against us to determine whether any act or situation has occurred that may cause a detriment to public funds. For cases in which the CGR determines that there has been a detriment to public funds caused by mismanagement or by willful or grossly negligent conduct, it may seek to recover such funds from the individuals and entities involved, report such conduct to other government authorities, or pursue both courses of action.

Furthermore, according to Law 226 of 1995, if the Republic of Colombia decides to sell its participation in our capital stock, it shall comply with a special offering procedure which grants a right of first refusal and special conditions for organized unions of workers, social organizations and mandatory pension and severance funds to purchase said equity. Any agreement to the contrary is unenforceable.

In other respects, as the Republic of Colombia, acting through the MHCP, holds a participation in our capital stock, three of the ten members comprising our Board of Directors should be representatives of the MHCP acting on behalf of the Republic of Colombia. An internal administrative procedure within the MHCP has to be undertaken in order to grant the credentials required for any government representatives in our Board of Directors to act on behalf of the MHCP. A similar internal administrative procedure will be needed to grant voting instructions to the representative of the MHCP at our general shareholders' meetings.

DESCRIPTION OF THE NOTES

This section of this offering memorandum summarizes the material terms of the Indenture (as defined below) and the notes. It does not, however, describe all of the terms of the Indenture and the notes. Upon request, we will provide you with copies of the Indenture. Copies of the Indenture (including forms of notes) will be available at the offices of any paying agent, including the Luxembourg paying agent.

In this section of this offering memorandum, references to "we," the "Issuer," "us" and "our" are to Colombia Telecomunicaciones S.A. ESP only and do not include our subsidiaries or affiliates. Owners of beneficial interests in the notes should refer to "—Form, Denomination and Title."

General

The U.S.$500.0 million subordinated perpetual notes will be issued pursuant to the indenture (the "Indenture"), to be dated as of March 30, 2015, between the Issuer and The Bank of New York Mellon, as trustee (the "Trustee," which expression shall, where the context so requires, include its successor(s) as trustee), paying agent, calculation agent (the "Calculation Agent"), transfer agent and registrar. As used herein, the term "notes" shall, unless the context otherwise requires, include any additional notes ("additional notes") issued pursuant to the Indenture and as described in this "Description of the Notes."

Registered Holders of the notes (the "Holders" and each a "Holder") and each beneficial owner of the notes are deemed to have notice of, and are bound by, all provisions of the Indenture.

Except in limited circumstances, the notes will be issued in the form of global notes. See "—Form, Denomination and Title".

The notes will not be registered under the Securities Act and may not be sold or otherwise transferred except pursuant to registration under the Securities Act, in accordance with Rule 144A or in a transaction that is otherwise exempt from or not subject to the registration requirements of the Securities Act. See "Transfer Restrictions."

The notes will be our unsecured, subordinated obligations. The claims of Holders under the notes are intended to be senior only to claims of Holders of our Share Capital (as defined below). We currently have no securities outstanding that rank junior to the notes other than our Share Capital.

We may repurchase notes in the market or in negotiated transactions at any time and, in certain circumstances, the notes may be redeemed at our option. The notes will not be subject to repayment at the option of the Holders. There will be no sinking fund for the notes.

We may from time to time, without the consent of Holders, issue additional notes on the same terms and conditions as the notes (except that the issue date, issue price and, possibly, the date upon which interest will accrue and first be paid may differ), which additional notes will increase the aggregate principal amount of, and will be consolidated and form a single series with, the notes. Any such additional notes will have the same terms as to ranking, redemption or otherwise as the notes.

Ranking of the Notes

The notes will be our direct, unconditional, unsecured and subordinated obligations.

The Indenture provides that the notes will rank:

- junior to all of our existing and future Unsubordinated Indebtedness (as defined below);
- *pari passu* with all other future Subordinated Indebtedness (as defined below); and
- senior to all existing and future classes of our Share Capital.

In connection with any Insolvency (as defined below) or Liquidation (as defined below) (1) all principal, premium, if any, and interest due or to become due on all Unsubordinated Indebtedness must be paid in full before the Holders of Subordinated Indebtedness (including the notes) are entitled to receive or retain any payment in respect thereof and (2) the Holders of Subordinated Indebtedness (including the notes) will be entitled to receive *pari passu* among themselves any payment in respect thereof. In any such event, the notes and any other Subordinated Indebtedness will be senior to all classes of our Share Capital.

We do not currently have any Subsidiaries (as defined herein) and the notes will not be guaranteed by any Subsidiaries in the future. Claims of creditors of any Subsidiaries, to the extent we have any in the future, including trade creditors and bank and other lenders, will have priority over the Holders in claims to assets of any such Subsidiaries.

As of December 31, 2014, our Unsubordinated Indebtedness was COP$4,060,076 million (U.S.$1,697.0 million).

"Unsubordinated Indebtedness" means all indebtedness for borrowed money, whether or not evidenced by notes, debentures or other written instruments, and whether outstanding on the date of execution of the Indenture or thereafter created, assumed or incurred, unless the terms thereof specifically provide that it is not superior in right of payment to Subordinated Indebtedness (including the notes).

"Subordinated Indebtedness" means all indebtedness for borrowed money (including the notes), whether or not evidenced by notes, debentures or other written instruments, and whether outstanding on the date of execution of the Indenture or thereafter created, assumed or incurred, the terms of which specifically provide that it is junior in right of payment to Unsubordinated Indebtedness, but is senior in right of payment to all classes of Share Capital.

"Share Capital" means our common shares and any other future class of equity securities.

Holders' Acknowledgement of Subordination of Notes

Each Holder (for itself and on behalf of the beneficial owners thereof), by purchasing the notes, whether in connection with the initial offering of the notes or a purchase at a later date, will be deemed to have agreed with us for the benefit of all of our present and future creditors, to subordinate the right of such Holder to collect any amount of principal, premium, if any, and interest due or to become due in respect of the notes as described in "—Ranking of the Notes" above. We, for the benefit of all of our present and future creditors, accept this undertaking of the Holders.

Each Holder agrees that (i) the Trustee will be the only party entitled to receive and distribute amounts paid in respect of the notes in the event of any Insolvency (as defined below) or Liquidation (as defined below) and (ii) in the event that, in connection with such proceedings, notwithstanding the subordination provisions agreed by the Holder, any amount is allocated for payment to the Holders prior to the payment of all of our Unsubordinated Indebtedness, any such amount received by the Trustee will be distributed by the Trustee, on behalf of the Holders, to the creditors of any of our unsatisfied Unsubordinated Indebtedness. In furtherance of this agreement, the Indenture will provide that the Trustee will have the exclusive right to file in any Insolvency or Liquidation of the Issuer for the recognition of the claims of all Holders. Each Holder irrevocably instructs the Trustee to file, on behalf of such Holder, a claim for recognition of the claims of all of the notes in such an event. The Indenture will provide that each Holder irrevocably instructs the Trustee to abstain from voting during the course of any such Insolvency or Liquidation as described above of the Issuer in any matter submitted for approval by our general unsecured creditors in such proceedings.

By purchasing the notes, whether in connection with the initial offering of the notes or a purchase at a later date, each Holder will be deemed to have waived any right of set-off, counterclaim or combination of accounts with respect to the notes (or between our obligations regarding the notes and any liability owed by a Holder or the Trustee to us) that such Holder might otherwise have against us. To the extent permitted by applicable law, if a payment or distribution is made to Holders that, due to the subordination provisions, should not have been made to them, such Holders are required to hold such payment or distribution in trust for the holders of Unsubordinated Indebtedness and pay such amounts over to them as their interests may require.

We have been advised by Colombian counsel that upon any distribution of assets to creditors in connection with any Insolvency or Liquidation, a Colombian court could disregard the subordination provisions relating to the notes and (i) treat the notes as ranking *pari passu* with all other unsecured indebtedness; and (ii) subordinate the notes to certain statutory priorities, including, for example, salaries, wages, social security, taxes, court fees and expenses and suppliers of raw materials necessary for the production or transformation of goods or for the rendering of services. In such event, Holders of notes acknowledge that they would be prevented from keeping distributions in excess of the amounts to which they would be entitled if the subordination provisions applicable to the notes were recognized.

Principal and Interest Payments

Maturity

The notes are perpetual notes with no fixed final maturity date or mandatory redemption date. The Issuer may redeem the notes in accordance with the provisions described in "—Redemption and Repurchase."

Interest Rates and Interest Payment Dates

Subject to our right to defer payment of interest (see "—Option to Defer Interest Payments"), interest on the notes will be payable semi-annually in arrears on March 30 and September 30 of each year, as applicable (each an "Interest Payment Date"), beginning on September 30, 2015, to Holders whose name each note is registered on the applicable Record Date (as defined below).

Unless previously redeemed or repurchased and cancelled as described herein, and subject to the further provisions described in "—Option to Defer Interest Payments" below, the notes will bear interest on their principal amount as follows:

(i) from and including March 30, 2015 (the "Issue Date") to but excluding March 30, 2020 (the "First Call Date"), the notes will bear interest at a rate of 8.50% per annum, payable semi-annually in arrears on each Interest Payment Date; and

(ii) from and including the First Call Date to but excluding the redemption date, if any, for each Reset Period (as defined below), the notes will bear interest at a rate equal to the relevant Five Year Swap Rate (as defined below) expressed as a percentage, plus the Initial Margin (as defined below); plus

(a) in respect of Reset Periods commencing on or after the First Call Date: 0.25%; plus

(b) in respect of Reset Periods commencing on or after March 30, 2035: a further 2.75% (unless the Issuer's S&P (as defined below) credit rating shall have been upgraded to Investment Grade (as defined herein) and is effective at March 30, 2035, then such 2.75% increase shall only become effective for Reset Periods commencing on or after March 30, 2040);

all as calculated by the Calculation Agent.

If the due date for any payment in respect of any note is not a Business Day (as defined below), the Holder thereof will not be entitled to payment of the amount due until the next succeeding Business Day. Payments postponed to the next Business Day in this situation will be treated under the Indenture as if they were made on the original payment date. Postponement of this kind will not result in a default under the notes or the Indenture, and no interest will accrue on the postponed amount from the original payment date to the next Business Day.

Interest on the notes will be calculated on the basis of a 360-day year of twelve 30-day months.

“Business Day” means a day other than a Saturday, Sunday or any day on which banking institutions are authorized or required by law to close in New York, New York or Bogotá, Colombia.

“Five Year Swap Rate” means, in respect of a Reset Period, the semi-annual mid-swap rate for U.S. dollar swap transactions with a maturity of five years displayed on the Reset Screen Page on the relevant Reset Interest Determination Date (as defined below). If the relevant Five Year Swap Rate does not appear on the Reset Screen Page on the relevant Reset Interest Determination Date, the Issuer shall deliver to the Calculation Agent in writing the Five Year Swap Quotations provided to it by the Reset Reference Banks (as defined below) on the relevant Reset Interest Determination Date. If at least three quotations are provided by the Reset Reference Banks, the Five Year Swap Rate will be determined by the Calculation Agent on the basis of the arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If fewer than three quotations are provided by the Reset Reference Banks, the Five Year Swap Rate will be determined by the Calculation Agent by obtaining the semi-annual mid-swap rate for U.S. dollar swap transactions with a maturity of five years as displayed on the Reset Screen Page on the last calendar day prior to such relevant Reset Interest Determination Date on which such quotation was displayed.

“Five Year Swap Rate Quotation” means, in relation to any Reset Period, the arithmetic mean of the bid and offered rates for the semi-annual fixed leg (calculated on a 30/360 day count basis) of a fixed-for-floating U.S. dollar interest rate swap which (i) has a term of five years commencing on the relevant Reset Date, (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market, and (iii) has a floating leg based on the 3-month LIBOR rate (calculated on an Actual/360 day count basis).

“Initial Margin” means 6.958%.

“Record Date” means the close of business on March 15 or September 15, as the case may be, immediately preceding an Interest Payment Date.

“Reset Date” means the First Call Date and each date falling on the fifth anniversary thereafter.

“Reset Interest Determination Date” means, in respect of any Reset Period, the day falling two Business Days prior to the beginning of the relevant Reset Period.

“Reset Period” means each period from and including the First Call Date to but excluding the next following Reset Date and thereafter from and including each Reset Date to but excluding the next following Reset Date.

“Reset Reference Bank Rate” means the percentage rate determined by the Calculation Agent on the basis of the Five Year Swap Rate Quotations provided by the Reset Reference Banks to the Calculation Agent at approximately 11:00 a.m. (New York City time) on the relevant Reset Interest Determination Date.

“Reset Reference Banks” means three major banks in the interbank market selected by the Issuer and notified to the Calculation Agent.

“Reset Screen Page” means the Bloomberg page “ISDA1” (or such other page as may replace that page on Bloomberg, or on such other equivalent information service) at 11:00 a.m. (New York City Time).

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc.

Unclaimed Payments

All money paid by us to the Trustee or any paying agent that remains unclaimed at the end of two years after the amount is due to a Holder will be repaid to us. After that two-year period, the Holder may look only to us for payment and not to the Trustee, any paying agent or anyone else.

Option to Defer Interest Payments

We, in our sole discretion, may defer payment of interest that would otherwise be payable on any Interest Payment Date in whole, or in part. Interest may be so deferred by our giving written notice of our decision to do so to the Trustee and Holders of notes as set forth under "—Notices," not less than seven nor more than 14 Business Days before the applicable Interest Payment Date.

If we elect not to make any payment of interest on an Interest Payment Date, then we will have no obligation to do so, and our failure to pay interest will not be an Event of Default (as defined herein) or any other breach of our obligations under the notes.

Interest payments deferred at our option as described above are referred to as "deferred interest." Any and all deferred interest will bear interest as if it constituted principal of the notes at a rate which corresponds to the interest rate applicable to the notes (such further interest, together with the deferred interest, being "arrears of interest").

Interest on deferred amounts will accrue from the deferred date, and arrears of interest will be compounded on subsequent Interest Payment Dates, semi-annually, at the rate of interest on the notes.

Payment of Deferred Interest

Optional Payment of Arrears of Interest

We may elect, in our sole discretion, to pay arrears of interest in whole or in part at any time. If we elect to do so, we will give not less than ten nor more than 14 Business Days' notice thereof to the Trustee and the Holders as set forth under "—Notices." On the payment date specified by us in any such notice, the outstanding arrears of interest that we have elected to pay will become due and payable. Such notice will also specify the record date for determining the registered Holders to which such amounts will be paid.

Mandatory Payment of Arrears of Interest

We will pay any deferred interest and all related arrears of interest, in whole (but not in part), on the notes on the first occurring Mandatory Payment Date following the Interest Payment Date on which such deferred interest first arose.

"Mandatory Payment Date" means the earlier of:

(i) the 5th Business Day following the occurrence of a Compulsory Arrears of Interest Settlement Event (as defined below);

(ii) the date on which the notes are redeemed in whole or repaid in accordance with the terms of the Indenture;

(iii) an Interest Payment Date in respect of which we have not elected to defer payment of the relevant scheduled interest payment;

(iv) the filing of a voluntary petition for the commencement of, or the entry of a final order approving involuntary, Insolvency proceedings against us; or

(v) the adoption of a plan relating to the liquidation or dissolution of the Issuer; provided, however, that this clause will not be applicable to a Subsidiary consolidating with, merging into or transferring all or part of its properties and assets to the Issuer or the Issuer merging with an affiliate of the Issuer solely for the purpose of reincorporating the Issuer in another jurisdiction.

A "Compulsory Arrears of Interest Settlement Event" shall have occurred if:

(i) a dividend, other distribution or payment of any nature in cash has been declared, paid or made in respect of any of our Share Capital or in respect of any Parity Security (as defined below); or

(ii) we, or any of our Subsidiaries, have repurchased, redeemed or otherwise acquired any of our Share Capital or any Parity Security; or

(iii) any fees or payments are paid to holders of our Share Capital or their Affiliates (other than wholly-owned Subsidiaries or Subsidiaries of the Issuer in which no Affiliate of the Issuer has an equity interest), except for fees or payments that (A) constitute compensation of our directors and officers; (B) relate to our business operations and have terms that are not materially less favorable to the Company than those that could be obtained at the time in arms' length dealings; or (C) are made in the form of Share Capital);

except, in the case of (i) and (ii), (x) where we are, or any of our Subsidiaries is, obligated under the terms of such securities to make such declaration, distribution, payment, redemption, repurchase or acquisition, (y) any purchase of Share Capital undertaken in connection with any existing or future employee stock option plan or other director, officer or employee participation plan, or (z) any repurchase or acquisition of Parity Securities that is made for a consideration less than the principal amount of such securities that are so purchased or acquired. For the avoidance of doubt, for the purposes of clause (x) of the preceding sentence, the declaration, distribution, or payment of any Minimum Legally Required Dividend (as defined below) shall not be considered as an obligatory declaration, distribution or payment pursuant to the terms of a security.

"Insolvency" means a proceeding before the competent authority on the grounds of insolvency (other than a Liquidation (as defined herein)) seeking to adjudicate the Issuer insolvent, or seeking reorganization, arrangement, adjustment, protection, relief or composition of any Indebtedness under Law 1116 of 2006, as amended, or any other Colombian law or regulation applicable to the Company relating to insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee or other similar official for the Issuer.

"Minimum Legally Required Dividend" means, any mandatory dividend payment under Colombian law. Under Articles 155 and 454 of Colombia's Code of Commerce, as amended, on Stock Corporations, a dividend must be distributed by the Issuer to its shareholders every year, on a pro rata basis to their shares, equivalent to (i) at least 50% of net consolidated profits from the previous year, after absorbing accumulated losses from prior years, if any, or (ii) at least 70% of net consolidated profits from the previous year, after absorbing accumulated losses from prior years, if any, if the sum of the legal, statutory and occasional reserves exceeds 100% of the subscribed capital at the close of the prior year. The Issuer's by-laws stipulate that its shareholders may waive distribution of the Minimum Legally Required Dividend by vote of at least 80% of the shares present at a Shareholder Meeting.

As of December 31, 2014, our legal, statutory and occasional reserves were COP$30,059 million and our subscribed capital was COP$1,454,870 million.

"Parity Securities" means, at any time, any Subordinated Indebtedness (including any of the notes). The term Parity Security shall apply mutatis mutandis to any securities issued by one of our Subsidiaries to the extent that such securities are guaranteed by us or we otherwise assume liability for them and such guarantee or assumption of liability ranks *pari passu* with our obligations under Subordinated Indebtedness.

"Subsidiary" means, with respect to any Person, any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Voting Stock is at the time owned or controlled, directly or indirectly, by (i) such Person; (ii) such Person and one or more Subsidiaries of such Person; or (iii) one or more Subsidiaries of such Person.

"Shareholder Meeting" means a meeting of the shareholders of the Issuer with a minimum quorum of 50% plus one share of the subscribed capital of the Issuer, provided that such quorum includes one Class A shareholder.

"Voting Stock" of a Person means all classes of capital stock of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

Calculation Agent, Paying Agents, Transfer Agent and Registrar

Initially, we have appointed the Trustee, at its corporate trust office in New York City, as Calculation Agent, Registrar, Transfer Agent and a Paying Agent and The Bank of New York Mellon (Luxembourg) S.A., as Luxembourg Paying Agent and Luxembourg Transfer Agent. We may appoint one or more other financial institutions to act as our paying agents, at whose designated offices the notes may be surrendered for payment upon their redemption, if any. We may add, replace or terminate paying agents from time to time; provided that if any notes are issued in certificated form, so long as such notes are outstanding, we will maintain a paying agent in New York City. We must notify you of changes in the paying agents as described under "—Notices."

Payment of Additional Amounts

All of the payments under or with respect to the notes will be made free and clear of and without withholding or deduction for or on account of any present or future tax, duty, levy, impost, assessment or other governmental charge (along with any penalties and interest related thereto, "Taxes") imposed or levied by Colombia or any political subdivision thereof or any jurisdiction from which payments are made or deemed made by the Issuer (each, a "Relevant Tax Jurisdiction"), unless such withholding or deduction is required by law. For a discussion of Colombian withholding taxes applicable to payments under or with respect to the notes, see "Taxation—Certain Colombian Tax Considerations."

If any amount for or on account of Taxes is required to be withheld or deducted from any payment made under or with respect to the notes, we will increase payments with respect to the notes in order to pay such additional amounts ("Additional Amounts") as may be necessary so that the net amount received by the beneficial owner of any such payment (including Additional Amounts) after such withholding or deduction will not be less than the amount such beneficial owner would have received if such Taxes had not been withheld or deducted. However, no Additional Amounts will be paid for or on account of:

(1) Taxes that would not have been imposed but for the fact that:

  (A) a beneficial owner of notes has or had a present or former connection with a Relevant Tax Jurisdiction (including, without limitation, being a resident, domiciliary or national of, engaging in business or maintaining a permanent establishment in, or being physically present in a Relevant Tax Jurisdiction) other than by merely owning, or receiving payment under, the notes;

  (B) the Holder presented the notes more than 30 days after the payment in question first became due and payable or was duly provided for, whichever is later, except to the extent Additional Amounts would have been payable with respect to the notes had they been presented for payment during that 30-day period;

(2) estate, inheritance, gift, sales, excise, transfer, personal property or similar Taxes;

(3) Taxes payable other than by withholding or deduction from payments of, or in respect of, principal of, or any premium or interest on, the notes;

(4) Taxes imposed or withheld because the Holder or a beneficial owner of notes failed to comply with a reasonable request from us or our paying agent:

  (A) to provide information concerning the nationality, residence, identity or address of the Holder or a beneficial owner of notes; or

(B) to make any declaration or similar claim or satisfy any information or reporting requirement required by law, regulation, or other practice of a Relevant Tax Jurisdiction as a precondition to any exemption from all or part of any Taxes, but only to the extent the Holder or a beneficial owner of notes is legally entitled to such exemption;

(5) any Taxes imposed on a beneficial owner of notes to the extent imposed at a rate greater than the rate applicable to beneficial owners generally because such beneficial owner owns a specified percentage of our outstanding stock and/or because we own a specified percentage of the equity of such beneficial owner;

(6) Taxes, to the extent such Taxes were imposed pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), any regulations or official interpretations thereof, agreements entered into pursuant to Section 1471(b)(1) of the Code or any law implementing an intergovernmental agreement thereto; or

(7) any combination of items (1), (2), (3), (4) (5) and (6) above.

Furthermore, no Additional Amounts will be paid with respect to any payment in respect of a beneficial interest in notes that is held by a partnership or a fiduciary (each, an "Intermediate Payee") to the extent the payment would, under the laws of the applicable Relevant Tax Jurisdiction, be treated as being derived or received for tax purposes by a member of the partnership or beneficiary or settlor with respect to the fiduciary and such partner, beneficiary or settlor would not have been entitled to the Additional Amounts had it been the Intermediate Payee.

Upon request, we or our paying agent will provide the Trustee with official receipts or other documentation satisfactory to the Trustee evidencing the payment of the Taxes with respect to which Additional Amounts are paid.

Whenever in the Indenture there is mentioned, in any context:

(1) the payment of principal;

(2) purchase prices in connection with a purchase of notes;

(3) interest; or

(4) any other amount payable on or with respect to any of the notes;

such reference shall be deemed to include payment of Additional Amounts as described under this heading to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

We will pay any present or future stamp, issue, registration, value added, documentary or other similar excise Taxes or levies that arise in the Relevant Tax Jurisdiction from the creation, issue, offering, execution, delivery, enforcement or registration of the notes, the Indenture or any other document or instrument related to them (including, without limitation, any such Taxes that are referred to as "court" or "property" Taxes) and we will agree to indemnify the Holder and beneficial owners for any such Taxes paid by the Holder or beneficial owners.

The obligations described under this heading will survive any termination, defeasance or discharge of the Indenture and will apply mutatis mutandis to any jurisdiction in which any successor Person to us is organized or any political subdivision or taxing authority or agency thereof or therein.

Redemption and Repurchase

We may redeem the notes in the circumstances, in the manner and at the prices described below. Any redeemed notes will stop bearing interest on the redemption date, regardless of the date that you receive the applicable redemption payment.

"Redemption Price" means:

(i) in the case of an Optional Redemption (as defined below), a Withholding Tax Event (as defined below) or a Substantial Repurchase Event (as defined below), at any time, 100% of the principal amount of the notes to be redeemed;

(ii) in the case of an Accounting Event, a Rating Methodology Event or a Tax Deductibility Event (each as defined below), either:

(a) 101% of the principal amount of the notes to be redeemed if the redemption date is prior to the First Call Date; or

(b) 100% of the principal amount of the notes to be redeemed if the redemption date is on or after the First Call Date; or

(iii) in the case of a Change of Control (as defined below) that results in a Ratings Decline (as defined below), 101% of the principal amount of the notes to be redeemed.

in each case, plus accrued interest (including any deferred interest and arrears of interest) up to (but not including) the redemption date of the notes, and Additional Amounts, if any, with respect to such payment.

Optional Redemption

On the First Call Date and on any Interest Payment Date thereafter, we have the right to redeem all, but not less than all, of the notes at our option, in whole (but not in part) ("Optional Redemption"), at the applicable Redemption Price upon giving not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Trustee and the Holders as set forth under "—Notices."

Redemption for Changes in Withholding Taxes

We may redeem the notes in whole (but not in part) at our option at any time at the applicable Redemption Price upon giving not less than 30 and not more than 60 calendar days' irrevocable written notice of redemption to the Trustee and the Holders as set forth under "—Notices" if (i) either as a result of (A) any change in or amendment to the laws, regulations, general rules or treaties of a Relevant Tax Jurisdiction, which change or amendment is enacted and becomes effective after the Issue Date (or if the applicable Relevant Tax Jurisdiction first became a Relevant Tax Jurisdiction after the Issue Date, which change or amendment is enacted and becomes effective after the date the applicable Relevant Tax Jurisdiction first became a Relevant Tax Jurisdiction) or (B) any change in the application or official interpretation of laws, regulations, general rules or treaties of a Relevant Tax Jurisdiction, which change is announced and becomes effective after the Issue Date (or, if the applicable Relevant Tax Jurisdiction first became a Relevant Tax Jurisdiction after the Issue Date, which change is announced and becomes effective after the date the applicable Relevant Tax Jurisdiction first became a Relevant Tax Jurisdiction), the Issuer has become or will become obligated to pay Additional Amounts with respect to the notes; provided that the Issuer shall have no right to redeem the notes as a result of a change in Colombian tax law unless the rate of Colombian withholding tax giving rise to such Additional Amounts exceeds 14.0% and (ii) such obligations cannot be avoided by the Issuer taking reasonable measures available to it (any such event described in (i) or (ii), a "Withholding Tax Event"); provided, further, that (a) no such notice of redemption will be given earlier than 60 days prior to the earliest date on which the Issuer would be obligated to pay such Additional Amounts and (b) at the time such notice is given, the Issuer's obligation to pay such Additional Amounts remains in effect.

Prior to giving such written notice to the Holders, we will deliver to the Trustee:

(i) an Officer's Certificate stating that we are entitled to effect such redemption and setting forth in reasonable detail a statement of facts showing that the conditions precedent to our right to redeem the notes in accordance with the Indenture have been satisfied; and

(ii) an opinion of an independent legal adviser, appointed by us at our own expense, of recognized standing in Colombia to the effect that we will become obligated to pay such Additional Amounts within 60 calendar days of the date of the opinion as a result of a change or amendment described above and that all governmental approvals necessary for the Issuer to effect such redemption have been obtained and are in full force and effect or specifying any such necessary approvals that as of the date of such opinion have not been obtained).

Redemption upon a Substantial Repurchase Event

In the event that at least 80% of the initial aggregate principal amount of notes has been purchased by us or on our behalf (a "Substantial Repurchase Event"), we may at our option redeem the notes in whole (but not in part) at any time at the applicable Redemption Price upon giving not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Trustee and the Holders as set forth under "—Notices."

Prior to giving such notice to the Holders, we will deliver to the Trustee an Officer's Certificate stating that we are entitled to effect such redemption and setting forth a brief statement of facts showing that the conditions precedent to our right to redeem the notes in accordance with the Indenture have been satisfied and the Trustee shall be entitled to accept and conclusively rely on the above certificate as sufficient evidence of the satisfaction of the conditions precedent set out above and the facts set out therein, in which event the same shall be conclusive and binding on Holders of such notes.

Redemption following an Accounting Event

If an Accounting Event occurs, then the Issuer may, subject to having given not less than 30 nor more than 60 calendar days' notice to the Holders in accordance with "—Notices" (which notice shall be binding and irrevocable), redeem the notes in whole but not in part at any time at the applicable Redemption Price.

Prior to the giving of notice of redemption of the notes following an Accounting Event pursuant to the Indenture, the Issuer will deliver to the Trustee:

(i) an Officer's Certificate to the effect that the Issuer is or at the time of the redemption will be entitled to effect such a redemption pursuant to the Indenture, and setting forth in reasonable detail the circumstances giving rise to such right of redemption; and

(ii) a copy of the Accounting Opinion (as defined below) relating to the applicable Accounting Event, and the Trustee shall be entitled to accept and rely conclusively upon the above certificate and a copy of the Accounting Opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event the same shall be conclusive and binding on the Holders.

"Accounting Event" shall be deemed to occur if the Issuer has received an opinion of a recognized accountancy firm of international standing (an "Accounting Opinion") stating that, as a result of a change after the Issue Date in the accounting rules, methodology or official interpretations of the International Accounting Standards Board ("IASB") or similar governing body effective in Colombia, the notes, in whole or in part, must not or must no longer be recorded as "equity" pursuant to IFRS as in effect in Colombia.

"IFRS" means the standards and interpretations issued by the IASB which includes the (a) International Financial Reporting Standards; (b) International Accounting Standards; (c) the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), and (d) the interpretations of the former Committee of Interpretation ("SIC").

Redemption for a Rating Methodology Event

If a Rating Methodology Event occurs, we may redeem the notes at our option in whole (but not in part) at any time at the applicable Redemption Price upon giving not less than 30 and not more than 60 calendar days' irrevocable written notice of redemption to the Trustee and the Holders as set forth under "—Notices."

Prior to giving such written notice to the Holders, we will deliver to the Trustee an Officer's Certificate stating that we are entitled to effect such redemption and setting forth a brief statement of facts showing that the conditions precedent to our right to redeem the notes in accordance with the Indenture have been satisfied, and the Trustee shall be entitled to accept and conclusively rely on the above certificate as sufficient evidence of the satisfaction of the conditions precedent set out above and the facts set out therein, in which event the same shall be conclusive and binding on Holders of such notes.

A "Rating Methodology Event" means that we certify in a written notice to the Trustee that an amendment, clarification or change has occurred after the Issue Date in the equity credit criteria or methodology of any Rating Agency by which we are assigned solicited ratings (including a change resulting from the application of a different hybrid capital methodology or set of criteria due to a change in the rating previously assigned to the issuer or for any other reason) or in the Rating Agency's interpretation or application thereof, which amendment, clarification or change results in a lower equity credit (or such similar nomenclature used by such Rating Agency from time to time) for the notes than the then respective equity credit assigned on the Issue Date, or if equity credit is not assigned on the Issue Date, at the date when the equity credit is assigned for the first time.

Redemption for Tax Deductibility Event

If a Tax Deductibility Event occurs, we may redeem the notes at our option in whole (but not in part) at any time at the applicable Redemption Price upon giving not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Trustee and the Holders as set forth under "—Notices."

Prior to giving such written notice to the Holders, we will deliver to the Trustee:

(i) an Officer's Certificate stating that we are entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to our right to redeem the notes in accordance with the Indenture have been satisfied; and

(ii) an opinion of an independent legal or tax adviser, appointed by us at our own expense, of recognized standing in Colombia to the effect that payments of interest by us in respect of the notes are no longer, or within 90 calendar days of the date of that opinion will no longer be, deductible in whole or in part for corporate income tax purposes in Colombia or any political subdivision or taxing authority thereof or therein affecting taxation as a result of a Tax Law Change.

The Trustee shall be entitled to accept and conclusively rely on the above certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above and the facts set out therein in which event the same shall be conclusive and binding on the Holders.

"Tax Law Change" means any amendment to, or change in, the laws (or any rules or regulations thereunder) of Colombia or any political subdivision or taxing authority thereof or therein affecting taxation, or any amendment to or change in an official interpretation or application of such laws, rules or regulations, which amendment to or change of such laws, rules or regulations becomes effective on or after the Issue Date.

A "Tax Deductibility Event" shall be deemed to have occurred with respect to any notes if, as a result of a Tax Law Change, payments of interest by us in respect of the notes are no longer, or within 60 calendar days of the date of any opinion of counsel provided pursuant to the Indenture will no longer be, deductible in whole or in part for corporate income tax purposes in Colombia or any political subdivision or taxing authority thereof or therein affecting taxation, and we cannot avoid the foregoing by taking reasonable measures available to us.

Redemption upon a Change of Control that Results in a Ratings Decline

In the event that a Change of Control occurs that results in a Ratings Decline, we may redeem the notes in whole (but not in part) at our option at any time at the applicable Redemption Price upon giving not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Trustee and the Holders as set forth under "—Notices."

Prior to giving such written notice to the Holders, we will deliver to the Trustee an Officer's Certificate stating that we are entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to our right to redeem the notes in accordance with the Indenture have been satisfied and the Trustee shall be entitled to accept and conclusively rely on the above certificate as sufficient evidence of the satisfaction of the conditions precedent set out above and the facts set out therein, in which event the same shall be conclusive and binding on Holders of such notes.

If, in the event of a Change of Control that results in a Ratings Decline, we do not redeem the notes pursuant to the provisions described herein, we will permanently pay additional interest on the notes at a rate of 5.0% per annum. Unless the Company has redeemed the notes in connection with the occurrence of such event, the additional interest will become effective on the 90th day after the date on which a Change of Control occurs that results in a Ratings Decline. Accrued additional interest will be payable on the same dates and in the same manner as interest is generally paid on the notes.

The feature of the notes relating to a Change of Control that results in a Ratings Decline may in certain circumstances make more difficult or discourage a sale or takeover of the Issuer and, thus, the removal of incumbent management.

"Change of Control" means:

(1) any "person" (as such term is used in Sections 13(d) and 14(d) of the U.S. Exchange Act of 1934, as amended (the "Exchange Act")), other than one or more Permitted Holders (as defined below), is or becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 50% of the total voting power of the Voting Stock of the Issuer or any successor to the Issuer;

(2) individuals who on the Issue Date constituted the Board of Directors (together with any new directors whose appointment, election or nomination for election was approved by one or more Permitted Holders) cease for any reason to constitute a majority of the Board of Directors then in office;

(3) the adoption of a plan relating to the liquidation or dissolution of the Issuer; provided, however, that this clause (3) will not be applicable to a Subsidiary consolidating with, merging into or transferring all or part of its properties and assets to the Issuer or (B) the Issuer merging with an Affiliate of the Issuer solely for the purpose and with the sole effect of reincorporating the Issuer in another jurisdiction; or

(4) the sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the consolidated assets of the Issuer and its Subsidiaries taken as a whole to any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) other than to one or more of the Permitted Holders.

"Affiliate" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Board of Directors" means the Board of Directors of the Issuer or any committee thereof duly authorized to act on behalf of such Board of Directors.

"Permitted Holders" means (a) any Person that is an Affiliate of the Issuer as of the Issue Date and (b) each of the direct shareholders of record of the Issuer as of the Issue Date, and any Affiliate thereof.

"Person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"Investment Grade" means BBB- or higher by S&P, Baa3 or higher by Moody's Investor Service Inc. ("Moody's") and BBB- or higher by Fitch, or the equivalent of such ratings by another Rating Agency.

"Ratings Decline" means that at any time within 90 days (which period shall be extended so long as the rating of the notes is under publicly announced consideration for possible downgrade by either Rating Agency) after the earlier of the date of public notice of a Change of Control and of the Issuer's intention or that of any Person to effect a Change of Control, (i) in the event the notes are assigned an Investment Grade rating by at least two of the Rating Agencies prior to such public notice, the rating of the notes by at least two of the Rating Agencies shall be below an Investment Grade rating; (ii) in the event the notes are rated below an Investment Grade rating by at least two of the Rating Agencies prior to such public notice, the rating of the notes by at least two of the Rating Agencies shall be decreased by one or more categories; (iii) in the event that the notes are assigned ratings by only two Rating Agencies, and an Investment Grade rating is assigned by one such Rating Agency and a rating below Investment Grade is assigned by the other Rating Agency prior to such public notice, the rating of the notes by each such Rating Agencies shall be decreased by one or more categories; or (iv) in the event that the Notes are assigned a rating by one Rating Agency only, and the rating of the notes, assigned by such Rating Agency (a) shall be Investment Grade rating prior to such public notice, the rating of the notes shall be below an Investment Grade rating, or (b) shall be below Investment Grade, the rating of the notes by such Rating Agency shall be decreased by one or more categories; provided that, in case of each of (i) through (iv), any such Rating Decline is the result of a Change of Control.

"Rating Agency" or "Rating Agencies" means each of Standard & Poor's, Moody's and Fitch; provided, that if either Standard & Poor's, Moody's or Fitch shall cease issuing a rating on the notes for reasons outside the control of the Issuer, the Issuer may select a "nationally recognized statistical rating organization" within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act, as a replacement agency for Standard & Poor's, Moody's or Fitch, as the case may be.

Events of Default

The following will be an "Event of Default" with respect to the notes:

(i) we fail to pay interest on any note within 21 days after its due date (other than deferred interest payments, payment of which has not become mandatory under any of the circumstances described under "—Payment of Deferred Interest—Mandatory Payment of Arrears of Interest");

(ii) we fail to pay the principal or premium, if any, of any note when it becomes due; or

(iii) the occurrence of any Liquidation.

"Liquidation" means (1) the adoption by the shareholders of the Issuer of the decision to liquidate or dissolve the Issuer, except in connection with a merger, or (2) the entry of a final order approving a judicial liquidation proceeding (*proceso de liquidación judicial*) against or regarding the Issuer pursuant to or under applicable Liquidation Laws.

"Liquidation Law" means the provisions of (1) Colombian law or regulations governing the liquidation of Colombian companies, including without limitation, the Colombian Code of Commerce and Law 1116 of 2006, in each case, as amended, or any other Colombian law or regulation applicable to the Company governing the liquidation of Colombian companies from time to time, and (2) the equivalent laws of any other applicable jurisdiction.

Remedies Upon Event of Default

The payment of the principal of the notes will be accelerated only upon the occurrence of an Event of Default described in clause (iii) above, referred to as a "Liquidation Event of Default." Upon the occurrence of a Liquidation Event of Default, the entire principal amount of all the notes and any accrued interest and any additional amounts and arrears of interest will be automatically accelerated, without any action by the Trustee or any Holder and any principal, interest or additional amounts will become immediately due and payable.

There is no right of acceleration of the payment of principal of the notes upon the occurrence of any of the other Events of Default noted above. If an Event of Default occurs under the Indenture and is continuing, the Trustee may or, at the written request of Holders of not less than 25% in principal amount of the notes and subject to the following paragraph, shall pursue any available remedy (excluding acceleration, except as provided above) under the Indenture to collect the payment of due and unpaid principal of and interest on the notes, or enforce the performance of any provision of the notes or the Indenture.

If any Event of Default occurs, the Trustee shall not be charged with knowledge of any Event of Default with respect to the Notes unless a written notice of such Event of Default shall have been given to an officer of the Trustee with direct responsibility for the administration of the Indenture and the notes, by the Issuer or any Holder of the notes. The Trustee will be obligated to use those of its rights and powers under the Indenture, and to use the same degree of care and skill in doing so, that a prudent person would use under the circumstances in conducting his or her own affairs.

Except as described in the prior paragraph, the Trustee is not required to take any action under the Indenture at the request of any Holders unless the Holders provide the Trustee with reasonable protection, known as an indemnity, from expenses and liability. If the Trustee receives an indemnity that is reasonably satisfactory to it, the Holders of a majority in principal amount of the notes may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the Trustee. These majority Holders may also direct the Trustee in performing any other action under the Indenture with respect to the notes.

Before you bypass the Trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the notes, the following must occur:

- you must give the Trustee written notice that an Event of Default has occurred and the Event of Default has not been cured or waived;

- the Holders of not less than 25% in principal amount of the notes must make a written request that the Trustee take action with respect to the notes because of the default and they or other Holders must offer to the Trustee indemnity reasonably satisfactory to the Trustee against the cost and other liabilities of taking that action;

- the Trustee must not have taken action for 60 days after the above steps have been taken; and

- during those 60 days, the Holders of a majority in principal amount of the notes must not have given the Trustee directions that are inconsistent with the written request of the Holders of not less than 25% in principal amount of the notes;

provided, that the Indenture will provide that such rights of Holders and responsibilities of the Trustee are limited as described under "—Ranking of the Notes—Holders' Acknowledgement of Subordination of Notes."

Book-entry and other indirect Holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the Trustee and how to declare or cancel an acceleration of the principal, premium, if any, or interest on the notes.

Waiver of Default

The Holders of not less than a majority in principal amount of notes may waive a past default for all the notes (after complying with the related requirements under the Indenture). If this happens, the default will be treated as if it had been cured. No one can waive a payment default on any note, however, without the approval of the particular Holder of that note.

Covenants

Holders will benefit from limited covenants contained in the Indenture including only covenants to pay the redemption price, interest, deferred interest, Additional Amounts and arrears of interest if and when the same become due and payable (subject to deferral) as well as the reporting covenant below. Otherwise, there are no covenants restricting the ability of the Issuer or our subsidiaries to make payments, incur indebtedness, dispose of assets, issue and sell capital stock, enter into transactions with affiliates or engage in business other than our present business. In addition, no negative pledge will apply to the notes.

Our failure to comply with the following provisions will not constitute an event of default under the Indenture.

Reporting Requirements

The Issuer will provide the Trustee with the following reports for delivery to Holders:

(a) an English language version of the Issuer's annual audited consolidated financial statements, prepared in accordance with Accounting Standards, no later than 120 days after the end of the Issuer's relevant fiscal year;

(b) an English language version of the Issuer's unaudited quarterly consolidated financial statements, prepared in accordance with Accounting Standards, no later than 60 days after the end of the Issuer's relevant fiscal quarter (other than the fourth quarter);

(c) simultaneously with the delivery of the financial statements referred to in clause (a) above, (i) an Officer's Certificate stating whether an Event of Default exists on the date of such certificate and, if an Event of Default exists, setting forth the details thereof and the action which the Issuer is taking or proposes to take with respect thereto;

(d) without duplication, English language versions or summaries of such other reports or notices as may be filed or submitted by the Issuer with the Luxembourg Stock Exchange or any other stock exchange on which the Securities may be listed;

(e) as soon as practicable and in any event within 30 calendar days after any director or executive officer of the Issuer becomes aware of the existence of an Event of Default, an Officer's Certificate setting forth the details thereof and the action which the Issuer is taking or proposes to take with respect thereto; and

(f) so long as the notes are not freely transferable under the Securities Act, any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

The Issuer will be deemed to have provided such information to the Trustee and to Holders by posting such information on its website, each within the time periods specified above. The Trustee has no obligation to determine if and when the Issuer's information is available on its website. Delivery of such reports, information and documents to the Trustee shall be for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including our compliance with any of the covenants contained in the Indenture (as to which the Trustee will be entitled to conclusively rely upon an Officer's Certificate).

"Accounting Standards," for any period, means, such accounting principles that are applicable to the Issuer's financial statements for that period under Colombian law.

"Officer" means the Chief Executive Officer, any Vice President, the Chief Financial Officer, the Treasurer or the Secretary who is a legal representative of the Issuer.

"Officer's Certificate" means a certificate signed by an Officer.

Modification and Waiver

There are three types of changes we can make to the Indenture and the notes under the Indenture.

Changes Requiring Each Holder's Approval

The following changes cannot be made without the approval of each Holder of an outstanding note affected by the change:

- a reduction in the principal amount, the interest rate, or the applicable Redemption Price for a note;
- a change in the obligation to pay Additional Amounts;
- a change in the currency of any payment on a note other than as permitted by the note;
- a change in the place or date of any payment on a note;
- an impairment of the holder's right to sue for payment of any amount due on its note;
- a reduction in the percentage in principal amount of the notes needed to change the Indenture or the notes under the Indenture; and
- a reduction in the percentage in principal amount of the notes needed to waive our compliance with the Indenture or to waive defaults.

Changes Not Requiring Approval

Some changes will not require the approval of Holders of notes. These changes are limited to specific kinds of changes, including, but not limited to, curing any ambiguity, omission, defect or inconsistency, providing for successor entities in compliance with the Indenture, issuing additional securities, and changes as determined by us that would not adversely affect the Holders in any material respect.

Changes Requiring Majority Approval

Any other change to the Indenture or the notes will be required to be approved by the Holders of a majority in principal amount of the notes affected by the change or waiver. The required approval must be given by written consent.

The same majority approval will be required for us to obtain a waiver of any of our covenants in the Indenture. Our covenants include the promises we make about delivering reports which we describe under "Covenants—Reporting Requirements." If the Holders approve a waiver of a covenant, we will not have to comply with it. The Holders, however, cannot approve a waiver of any provision in a particular note or the Indenture, as it affects that note, that we cannot change without the approval of the Holder of that note as described under "—Changes Requiring Each Holder's Approval," unless that Holder approves the waiver.

Book-entry and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the Indenture or the notes or request a waiver.

Special Rules for Actions by Holders

When Holders take any action under the Indenture, such as giving a notice of default, declaring an acceleration, approving any change or waiver or giving the Trustee an instruction, we will apply the following rules.

Only Outstanding Notes are Eligible for Action by Holders

Only Holders of outstanding notes will be eligible to vote or participate in any action by Holders. In addition, we will count only outstanding notes in determining whether the various percentage requirements for voting or taking action have been met. For these purposes, a note will not be "outstanding" if it has been surrendered for cancellation or if we have deposited or set aside, in trust for its holder, money for its payment or redemption.

Determining Record Dates for Action by Holders

We will generally be entitled to set any day as a Record Date for the purpose of determining the Holders that are entitled to take action under the Indenture. In some limited circumstances, only the Trustee will be entitled to set a Record Date for action by Holders. If we or the Trustee set a Record Date for an approval or other action to be taken by Holders, that vote or action may be taken only by persons or entities who are Holders on the Record Date and must be taken during the period that we specify for this purpose, or that the Trustee specifies if it sets the Record Date. We or the Trustee, as applicable, may shorten or lengthen this period from time to time. This period, however, may not extend beyond the 180th day after the Record Date for the action. In addition, Record Dates for any global notes may be set in accordance with procedures established by the depositary from time to time.

Transfer Agents

We may appoint one or more transfer agents, at whose designated offices any notes in certificated form may be transferred or exchanged and also surrendered before payment is made upon redemption. Initially, we have appointed the Trustee, at its corporate trust office in New York City, as transfer agent. We may also choose to act as our own transfer agent. We must notify you of changes in the transfer agent as described under "—Notices." If we issue notes in certificated form, Holders of notes in certificated form will be able to transfer their notes, in whole or in part, by surrendering the notes, with a duly completed form of transfer, for registration of transfer at the office of our transfer agent in New York City. We will not charge any fee for the registration or transfer or exchange, except that we may require the payment of a sum sufficient to cover any applicable tax or other governmental charge payable in connection with the transfer.

Listing

We have applied to have the notes listed on the Official List of the Luxembourg Stock Exchange (the "LSE") and admitted to trading on the Euro MTF Market. We will use our reasonable efforts to maintain such listing, provided that if, as a result of the European Union regulated market amended Directive 2001/34/EC (the "Transparency Directive") or any legislation implementing the Transparency Directive we could be required to publish financial information either more regularly than otherwise would be required to or according to accounting principles which are materially different from the accounting principles which we would otherwise use, or we determine that it is unduly burdensome to maintain a listing on the LSE, we may delist the notes from the Euro MTF Market in accordance with the rules of the LSE and seek an alternative admission to listing, trading and/or quotation for the notes on a different section of the LSE or by such other listing authority, stock exchange and/or quotation system inside or outside the European Union as we may decide. Although there is no assurance as to the liquidity that may result from a listing on the LSE, delisting the notes from the LSE may have a material effect on the ability of Holders to resell the notes in the secondary market.

Notices

All notices will be deemed to have been given upon the mailing by first class mail, postage prepaid, of such notices to Holders at their registered addresses as recorded in the register. In addition, so long as the notes are listed on the Luxembourg exchange and the rules of the exchange so require, notices will also be published in a leading newspaper having general circulation in Luxembourg, which is expected to be "*Luxemburger Wort*." If such publication is not practicable, notice will be considered to be validly given if otherwise made in accordance with the rules of the Luxembourg exchange. Any such notice will be deemed to have been delivered on the date of first publication. Any notice to Holders may also be published on the website of the LSE (www.bourse.lu).

Notices will be deemed to have been given on the date of mailing or of publication as aforesaid or, if published on different dates, on the date of the first such publication. If publication as provided above is not practicable, notices will be given in such other manner, and shall be deemed to have been given on such date.

Neither the failure to give any notice to a particular holder, nor any defect in a notice given to a particular holder, will affect the sufficiency of any notice given to another holder.

Governing Law

The Indenture and the notes will be governed by, and construed in accordance with, the laws of the State of New York, United States of America.

Submission to Jurisdiction

In connection with any legal action or proceeding arising out of or relating to the notes or the Indenture (subject to the exceptions described below), we have:

- submitted to the jurisdiction of any U.S. federal or New York state court in the Borough of Manhattan, The City of New York, and any appellate court thereof;

- agreed that all claims in respect of such legal action or proceeding may be heard and determined in such U.S. federal or New York state court and waived, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding and any right of jurisdiction in such action or proceeding on account of our place of residence or domicile; and

- appointed National Corporate Research, Ltd., with an office at 10 E. 40th Street, 10th Floor, New York, NY 10016, as process agent.

The process agent will receive, on our behalf, service of copies of the summons and complaint and any other process which may be served in any such legal action or proceeding brought in such New York state or U.S. federal court sitting in New York City. Service may be made by mailing or delivering a copy of such process to us at the address specified above for the process agent.

A final judgment in any of the above legal actions or proceedings will be conclusive and may be enforced in other jurisdictions, in each case, to the extent permitted under the applicable laws of such jurisdiction and any other applicable requirement. See "Enforcement of Civil Liabilities."

In addition to the foregoing, the Holders may serve legal process in any other manner permitted by applicable law. The above provisions do not limit the right of any Holder to bring any action or proceeding against us or our properties in other courts where jurisdiction is independently established.

To the extent that we have or hereafter may acquire or have attributed to us any sovereign or other immunity under any law, we have agreed to waive, to the fullest extent permitted by law, such immunity from jurisdiction or to service of process in respect of any legal suit, action or proceeding arising out of or relating to the Indenture or the notes.

Our Relationship with the Trustee

The Bank of New York Mellon is initially serving as the Trustee, Registrar, Transfer Agent, and Paying Agent for the notes and as Calculation Agent. The Bank of New York Mellon (Luxembourg) S.A. is serving as Luxembourg Paying Agent and Luxembourg Transfer Agent and Luxembourg Listing Agent. The Bank of New York Mellon and its affiliates may have other business relationships with us from time to time.

Statement of Intention

The following italicized Statement of Intention is not included as a term of the notes or the Indenture:

We intend (without thereby assuming any obligation) to redeem or repurchase the notes only to the extent that the aggregate principal amount of the notes to be redeemed or repurchased does not exceed the net proceeds received by us or any Subsidiary of ours during the 360-day period prior to the date of such redemption or repurchase from the sale or issuance by us or such Subsidiary to third party purchasers (other than our group entities) of securities that are assigned by S&P, at the time of sale or issuance, an aggregate "equity credit" (or such similar nomenclature used by S&P from time to time) that is equal or greater than the "equity credit" assigned to the notes to be redeemed or repurchased at the time of their sale or issuance (but taking into account any changes in hybrid capital methodology or another relevant methodology or the interpretation thereof since the issuance of the notes), unless:

(i) the international senior rating assigned by S&P to us is at least "BB", (or such similar nomenclature as is then used by S&P) and we are of the view that such rating would not fall below this level as a result of such redemption or repurchase; or

(ii) such repurchase is of less than (a) 10% of the aggregate principal amount of the notes originally issued in any period of 12 consecutive months or (b) 25% of the aggregate principal amount of the notes originally issued in any period of 10 consecutive years; or

(iii) the notes are redeemed pursuant to (a) a Tax Deductibility Event, (b) a Withholding Tax Event, (c) a Rating Methodology Event that results from an amendment, clarification or change in the "equity credit" criteria used by S&P (or such similar nomenclature then used by S&P) or (d) an Accounting Event; or

(iv) the notes are not assigned an "equity credit" by S&P (or such similar nomenclature then used by S&P) at the time of such redemption or repurchase; or

(v) such redemption or repurchase occurs on or after the Reset Date falling on March 30, 2035.

Form, Denomination and Title

The notes will be issued in registered form, without interest coupons, in minimum denominations of U.S.$2,000 and integral multiples of U.S.$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of notes, but the Issuer or Trustee or other agent may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

The notes will be represented by a Restricted Global Note (as defined below) and a Regulation S Global Note (as defined below) (each sometimes referred to herein as a "Global Note" and together sometimes referred to herein as the "Global Notes").

Notes sold in reliance on Rule 144A initially will be represented by one or more Global Notes in definitive, fully registered form without interest coupons (the "Restricted Global Note") and will be deposited with the Trustee as custodian for DTC and registered in the name of DTC or its nominee.

Notes sold outside the United States in reliance on Regulation S will be represented by one or more Global Notes in definitive, fully registered form without interest coupons (the "Regulation S Global Note") and will be deposited with the Trustee as custodian for DTC, and registered in the name of DTC or its nominee for the accounts of Euroclear and Clearstream (as indirect participants in DTC).

The Restricted Global Note and Regulation S Global Note will be subject to certain restrictions on transfer and will bear a legend to that effect. See "Transfer Restrictions."

Transfers of a note or beneficial interest therein to a person who takes delivery in the form of a Restricted Global Note or beneficial interest therein may be made only upon receipt by the Trustee of a written certification from the transferor (in the form provided in the Indenture) to the effect that such transfer is being made to a person that the transferor reasonably believes is a qualified institutional buyer (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state, territory or other jurisdiction (including the District of Columbia) of the United States or any other jurisdiction.

Transfers of a note or beneficial interest therein to a person who takes delivery in the form of a Regulation S Global Note or beneficial interest therein may be made only upon receipt by the Trustee of a written certification from the transferor (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Rules 903 and 904 of Regulation S.

Any beneficial interest in one of the Global Notes that is transferred to a person who takes delivery in the form of an interest in another Global Note will, upon transfer, cease to be an interest in such Global Note and become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Note for as long as it remains such an interest.

The Issuer will initially appoint the Trustee at its office in New York, New York specified herein as registrar and New York paying agent and transfer agent for the notes. In such capacities, the Trustee will be responsible for, among other things, (i) maintaining a record of the aggregate holdings of notes represented by the Global Notes and accepting notes for exchange and registration of transfer, (ii) ensuring that payments of principal, premium, if any, and interest in respect of the notes received by the Trustee from the Issuer are duly paid to DTC or its nominee and (iii) transmitting to the Issuer any notices from Holders.

The notes may be redeemed at the Issuer's option (see "—Redemption and Repurchase"). The notes are not subject to repayment at the option of the Holders. There is no sinking fund for the notes. We may, from time to time, without the consent of Holders, issue additional notes on the same terms and conditions as the notes (except that the issue date, issue price and, possibly, the date upon which interest will accrue and first be paid may differ), which additional notes will increase the aggregate principal amount of, and will be consolidated and form a single series with the notes. Any such additional notes will have the same terms as to ranking, redemption or otherwise as the notes.

Global Notes

Upon the issuance of a Restricted Global Note and a Regulation S Global Note, DTC or its custodian will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by such Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the Initial Purchasers. Ownership of beneficial interests in a Global Note will be limited to persons who have accounts with DTC ("DTC Participants") or persons who hold interests through DTC Participants. Ownership of beneficial interests in the Global Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC Participants) and the records of DTC Participants (with respect to interests of persons other than DTC Participants).

Investors may hold their interests in a Regulation S Global Note directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems. Euroclear and Clearstream will hold interests in the Regulation S Global Note on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries, which in turn will hold such interests in the Regulation S Global Note in customers' securities accounts in the depositaries' names on the books of DTC. Investors that are qualified institutional buyers may hold their interests in Restricted Global Notes directly through DTC if they are DTC Participants, or indirectly through organizations that are DTC Participants.

Payments of the principal, premium, if any, and interest in respect of notes represented by a Global Note registered in the name of DTC or its nominee will be made to DTC or its nominee, as the case may be, as the registered owner of the Global Note representing such notes. None of the Issuer, the Trustee or any paying agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising, or reviewing any records relating to such beneficial ownership interests. The Issuer expects that DTC or its nominee, upon receipt of any payment of principal, premium, if any, and interest in respect of a Global Note representing any notes held by it or its nominee, will immediately credit DTC Participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note as shown on the records of DTC or its nominee.

The Issuer also expects that payments by DTC Participants to owners of beneficial interests in such Global Note held through such DTC Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC Participants. Transfers between DTC Participants will be effected in accordance with DTC rules and procedures and will be settled in same-day funds. Transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and procedures.

The laws of some jurisdictions require that certain persons take physical delivery of securities in certificated form. Consequently, the ability to transfer beneficial interests in a Global Note to such persons may be limited because DTC can only act on behalf of DTC Participants, who in turn act on behalf of indirect participants and certain banks. Accordingly, the ability of a person having a beneficial interest in a Global Note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of each interest, may be affected by the lack of a physical certificate for such interest.

Subject to compliance with the transfer restrictions applicable to the notes described above, cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream participants, on the other, will be effected in DTC in accordance with DTC rules and procedures on behalf of Euroclear or Clearstream, as the case may be, by its respective depositary; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in Regulation S Global Notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositaries for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a DTC Participant will be credited during the securities settlement processing day (which must be a Business Day for Euroclear or Clearstream, as the case may be) immediately following the DTC settlement date, and the credit of any transactions in interests in a Global Note settled during such processing will be reported to the relevant Euroclear or Clearstream participant on such day. Cash received in Euroclear or Clearstream as a result of sales of interests in a Global Note by or through a Euroclear or Clearstream participant to a DTC Participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the Business Day following settlement in DTC.

DTC has advised the Issuer that it will take any action permitted to be taken by a Holder (including, without limitation, the presentation of notes for transfer, exchange or conversion as described below) only at the direction of one or more DTC Participants to whose account with DTC interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of the notes as to which such Participant or Participants has or have given such direction. However, in the limited circumstances described herein, DTC will exchange the Global Notes for notes in certificated form, which it will distribute to DTC Participants; see "—Certificated Notes".

DTC has advised the Issuer as follows: DTC will act as the depositary for the notes. The notes will be issued as fully registered senior notes registered in the name of Cede & Co., which is DTC's partnership nominee. Fully registered Global Notes will be issued for the notes, in the aggregate principal amount of the issue, and will be deposited with DTC.

DTC has advised the Issuer that DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the

Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants deposit with DTC. DTC also facilitates the settlement among participants of securities transactions, including transfers and pledges, in deposited securities through electronic computerized book-entry changes to participants' accounts, thereby eliminating the need for physical movement of notes certificates. Direct participants of DTC include securities brokers and dealers, including the initial purchasers of the notes, banks, trust companies, clearing corporations and certain other organizations. Access to DTC's system is also available to indirect participants, which includes securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly. The rules applicable to DTC and its participants are on file with the SEC.

To facilitate subsequent transfers, all Global Notes representing the notes which are deposited with, or on behalf of, DTC are registered in the name of DTC's nominee, Cede & Co. The deposit of Global Notes with, or on behalf of, DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the Global Notes representing the notes; DTC's records reflect only the identity of the direct participants to whose accounts the notes are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. will consent or vote with respect to the Global Notes representing the notes. Under its usual procedure, DTC mails an omnibus proxy to the Issuer as soon as possible after the applicable Record Date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the notes are credited on the applicable Record Date (identified in a listing attached to the omnibus proxy).

DTC may discontinue providing its services as securities depositary with respect to the notes at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor securities depositary is not obtained, certificated notes are required to be printed and delivered. See "—Certificated Notes."

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC or a successor securities depositary. In that event, certificated notes will be printed and delivered. See "—Certificated Notes."

Although DTC, Euroclear and Clearstream have agreed to the procedures described above in order to facilitate transfers of interests in the Global Notes among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform these procedures, and these procedures may be discontinued at any time. Neither the Trustee nor the Issuer will have any liability or responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

The foregoing description of the operations and procedures of DTC, Euroclear and Clearstream is provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them. The Issuer takes no responsibility for these operations and procedures and urges investors to contact the relevant system or their DTC Participants directly for more information regarding these matters.

Certificated Notes

If DTC is at any time unwilling or unable to continue as a depositary for the reasons set forth under "—Global Notes" above and a successor depositary is not appointed by the Issuer within 90 days, the Issuer elects to discontinue use of the system of book-entry transfers through DTC or a successor securities depository, or an Event of Default has occurred and is continuing with respect to the notes, then, upon surrender by DTC of the Global Notes, the Issuer will issue individual definitive notes in certificated form, having the same terms and conditions and which will have the same aggregate principal amount, in registered form in exchange for Regulation S Global Notes and Restricted Global Notes, as the case may be. Upon any exchange for certificated notes, the certificated notes will be registered in the names of the beneficial owners of the Global Notes representing the notes, which names will be provided by DTC's relevant participants (as identified by DTC) to the Trustee.

The Holder of a certificated note may transfer such note by surrendering it at the office or agency maintained by the Issuer for such purpose in the Borough of Manhattan, The City of New York, which initially will be the office of the Trustee. Upon the transfer, exchange or replacement of certificated notes bearing the legend, or upon specific request for removal of the legend on a certificated note, the Issuer will deliver only certificated notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer, that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the U.S. Securities Act.

Neither the Trustee nor the registrar or any transfer agent will be required to register the transfer of or exchange certificated notes for a period from the applicable Record Date to the due date for any payment of principal of, or interest on, the notes or register the transfer of or exchange any notes for 15 days prior to selection for redemption through the date of redemption.

Prior to presentment of a note for registration of transfer (including a Global Note), the Issuer, the Trustee and any agent of the Issuer or the Trustee may treat the person in whose name such note is registered as the owner or Holder of such note for the purpose of receiving payment of principal or interest on such note and for all other purposes whatsoever, whether or not such note is overdue, and none of the Issuer, the Trustee or any agent of the Issuer or the Trustee will be affected by notice to the contrary.

TAXATION

The following discussion summarizes certain Colombian and U.S. federal income tax considerations that may be relevant to you if you invest in the notes. This summary is based on laws, regulations, rulings and decisions now in effect in Colombia and the United States, which, in each case, may change. Any change could apply retroactively and could affect the continued validity of this summary.

This summary does not describe all of the tax considerations that may be relevant to you or your situation, particularly if you are subject to special tax rules. You should consult your tax advisors about the tax consequences of holding the notes, including the relevance to your particular situation of the considerations discussed below, as well as of state, local and other tax laws.

Certain Colombian Tax Considerations

The following summarizes certain Colombian tax considerations that may be relevant to you if you invest in the notes. This summary is based on laws, regulations, rulings and decisions now in effect in Colombia and may change. Any change could apply retroactively and could affect the continued validity of this summary. Investors should consult their own tax advisors as to Colombian tax consequences of the purchase, ownership and sale of the notes, including, in particular, the application of the tax considerations discussed below to their particular situations, as well as the application of state, local, foreign or other tax laws.

Pursuant to current Colombian law, non-Colombian entities and individuals who are not residents in Colombia are subject to income tax in Colombia, but only on their Colombian-source income. Interest income will be deemed Colombian-source for this purpose, if the borrower is a Colombian entity.

For purposes of the above, an entity is considered as a Colombian entity (i.e., resident for Colombian tax purposes) if it is incorporated under the laws of Colombia, it has its domicile in the country or it has its effective place of management in Colombia.

Likewise, an individual is deemed to be a tax resident in Colombia if he or she meets any of the following criteria:

- Such person physically stays in Colombia for more than 183 calendar days within any given 365 consecutive day term.
- Such person has been in service with the Colombian State or Government in a foreign state in which that person is exempt from taxes during the time of service by virtue of any provisions of the Vienna Conventions on diplomatic relations.
- Such person is a Colombian national residing abroad and any of the following conditions are met:
  - Such person has a spouse or permanent companion, or dependent children, who is a resident of Colombia; or
  - 50.0% or more of such person's total income is sourced in Colombia;
  - 50.0% or more of such person's assets are managed in Colombia;
  - 50.0% or more of such person's assets are deemed to be possessed in Colombia;
  - Such person has been summoned by the Colombian Tax Office (*Dirección de Impuestos y Aduanas de Colombia*) to provide proof of residency in another country (other than Colombia) and has failed to provide such evidence; or
  - Such person is a resident of a country deemed a tax haven under Colombian law.

- In any of the six cases above, the Colombian national should not be considered as a tax resident if:
  - o 50.0% or more of the individual's annual income is sourced in the jurisdiction where he or she is a resident; or
  - o 50.0% or more of such individual's assets are located in the jurisdiction where he or she is a resident.

Based on the foregoing, interest income earned by non-Colombian entities and individuals who are not residents in Colombia from loans granted to Colombian entities, will be taxed in Colombia normally through a withholding tax. Interest income from the notes should be subject to income tax withholding at a 14.0% rate, considering that the term of the notes exceeds one year and all proper registrations before the Central Bank will be executed. Notwithstanding the above, if the holder of the notes is a resident in a State that has entered into a double taxation treaty, or DTT, with Colombia, the applicable income withholding tax rate will be the one established in the DTT.

Income earned by non-Colombian entities or individuals who are not residents in Colombia, resulting from the transfer of legal title over assets possessed outside the Colombian territory, will be deemed non-Colombian source income and, therefore, will not be subject to income tax nor to the capital gains tax in Colombia.

The notes and other debt securities issued by Colombian issuers and negotiated outside the Colombian territory should be deemed possessed outside the Colombian territory. Therefore, income earned by non-Colombian entities or individuals who are not residents in Colombia, resulting from the transfer of legal title over the notes or other debt securities should not be taxed in Colombia.

Holders of the notes who are not residents in Colombia will not be subject to any additional transfer, inheritance, gift or succession taxes applicable to the notes. Likewise, individuals who are not residents in Colombia and are beneficiaries of gifts, bequests and, in general, inheritance will not be subject to inheritance, gift or succession taxes in connection with the notes.

Finally, pursuant to Law 1739, non-Colombian entities (directly or indirectly through branches or permanent establishments) and individuals who are not residents in Colombia are generally subject to wealth tax if they held wealth in Colombia in excess of approximately U.S.$ 430,000 on January 1, 2015. However, Colombian tax rules provide that the notes and other debts securities issued by Colombian issuers and negotiated outside Colombian territory should be deemed possessed outside the Colombian territory. Therefore, the notes and other debt securities should not be taken into account when calculating the tax basis of the wealth tax included in Law 1739.

Changes to tax related laws and regulations, and interpretations thereof, can affect tax burdens by increasing tax rates and fees, creating new taxes, limiting tax deductions, and eliminating tax based incentives and non-taxed income. In addition, tax authorities or courts may interpret tax regulations differently than we do, which could result in tax litigation and associated costs and penalties.

Certain U.S. Federal Income Tax Considerations

The following is a description of certain material U.S. federal income tax considerations relevant to the acquisition, ownership, disposition and retirement of notes by a U.S. Holder (as defined below) thereof. This discussion is based on the U.S. Internal Revenue Code of 1986, as amended, or the Code, the Treasury regulations, or the Regulations, promulgated thereunder, and the judicial decisions and administrative pronouncements, all as in effect on the date hereof and all of which are subject to change, perhaps with retroactive effect. This discussion addresses only U.S. Holders that hold the notes as a capital asset, within the meaning of Section 1221 of the Code, and that use the U.S. dollar as their functional currency. The discussion does not consider the circumstances of particular holders, such as:

- financial institutions,
- insurance companies,
- real estate investment trusts,

- regulated investment companies,
- certain former citizens or long-term residents of the United States,
- grantor trusts,
- tax-exempt organizations,
- dealers or traders in securities or currencies, including those that mark to market for tax purposes,
- holders that will hold the notes as part of a hedge, straddle, conversion, constructive sale or integrated transaction for U.S. federal income tax purposes; or
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes.

Moreover, this description does not address the U.S. federal estate and gift tax, or alternative minimum tax consequences of the acquisition, ownership, disposition or retirement of the notes and does not address the U.S. federal income tax treatment of holders that do not acquire the notes as part of the initial distribution. Prospective investors should consult their own tax advisors regarding the specific U.S. federal tax consequences of the acquisition, ownership, disposition and retirement of the notes, as well as the effects of state, local and foreign tax law and any proposed tax law changes.

For purposes of this discussion, "U.S. Holder" means a beneficial owner of a Note that is for U.S. federal income tax purposes (1) a citizen or individual resident of the United States, (2) a corporation or other business entity treated as a corporation for U.S. federal income tax purposes and organized in or under the laws of the United States, any state thereof or the District of Columbia, (3) an estate, the income of which is subject to U.S. federal income taxation regardless of its source, or (4) a trust (i)(a) the administration of which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more U.S. persons have the authority to control, or (ii) that has a valid election in effect under applicable Regulations to be treated as a U.S. person for U.S. federal income tax purposes.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds notes, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership (or other entity). A partner in a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holding notes should consult its own tax advisor with regard to the U.S. federal income tax consequences of acquiring, holding and disposing of notes.

Tax Treatment of Payments on the Notes

Because the notes are perpetual, the notes will be treated as our equity for U.S. federal income tax purposes. Accordingly, subject to the discussion below under "—PFIC Rules," payments of stated interest on the notes (including any Additional Amounts) will be treated as distributions on our stock and as dividends to the extent paid out of current or accumulated earnings and profits of the Issuer, as determined under U.S. federal income tax principles. Because we do not expect to maintain calculations of its earnings and profits under U.S. federal income tax principles, it is expected that distributions paid to U.S. Holders generally will be reported as dividends. The amount of the dividend will be treated as foreign-source dividend income and will not be eligible for the dividends-received deduction generally available to U.S. corporations under the Code or for the reduced rate of tax available to certain non-corporate U.S. Holders for "qualified dividend income." A dividend will be included in a U.S. Holder's income on the date of the U.S. Holder's actual or constructive receipt of the dividend. The amount of a dividend will include any amounts withheld by us in respect of Colombian taxes.

Subject to applicable limitations, some of which vary depending on a U.S. Holder's circumstances, any Colombian income taxes withheld from dividends on the notes generally would be creditable against a U.S. Holder's federal income tax liability. Instead of claiming a credit, a U.S. Holder may elect to deduct Colombian income taxes in computing such holder's taxable income, subject to generally applicable limitations. An election to deduct foreign income taxes instead of claiming foreign tax credits applies to all taxes paid or accrued in the taxable year to foreign countries and U.S. possessions. The rules governing foreign tax credits are complex; if U.S. Holders become subject to Colombian income taxes, such holders should consult their tax advisors regarding the creditability of foreign taxes in their particular circumstances.

Sale, Exchange or Redemption of the Notes

Subject to the discussion below under "—PFIC Rules," a U.S. Holder will recognize capital gain or loss upon the sale, exchange, redemption or other disposition of notes in an amount equal to the difference between the amount realized on such disposition and the U.S. Holder's adjusted tax basis in the notes, in each case as determined in U.S. dollars. Your tax basis in a Note generally will be the price you paid for the Note. Any capital gain or loss will be long term if the notes have been held for more than one year. The deductibility of capital losses is subject to limitations.

If Colombian tax is imposed on the sale or other disposition of the notes, a U.S. Holder's amount realized will include the gross amount of the proceeds of the sale or other disposition before deduction of the Colombian tax. See "—Certain Colombian Tax Considerations" for a description of when a disposition may be subject to taxation by Colombia. Capital gain, if any, realized by a U.S. Holder on the sale, exchange or other disposition of the notes generally will be treated as U.S. source income for U.S. foreign tax credit purposes. Consequently, in the case of a disposition notes that is subject to Colombian tax, the U.S. Holder may not be able to use the foreign tax credit for that Colombian tax unless it can apply the credit against U.S. tax payable on other income from foreign sources in the appropriate income category, or, alternatively, it may take a deduction for the Colombian tax if it elects to deduct all of its foreign income taxes. U.S. Holders should consult their tax advisors as to whether the Colombian tax on gains may be creditable against the U.S. Holder's U.S. federal income tax on foreign-source income from other sources.

PFIC Rules

Special U.S. federal income tax rules apply to U.S. persons owning shares of a passive foreign investment company, or a PFIC. If we are treated as a PFIC for any year during which a U.S. Holder owns the notes, the U.S. Holder may be subject to adverse tax consequences upon a sale, exchange, or other disposition of the notes, or upon the receipt of certain "excess distributions" in respect of the notes. Based on audited financial statements, we believe that we were not a PFIC for U.S. federal income tax purposes with respect to our 2014 taxable year. In addition, based on our current expectations regarding the value and nature of our assets and the sources and nature of our income, we do not anticipate becoming a PFIC for the 2015 taxable year or in the foreseeable future.

Backup Withholding and Information Reporting

Generally, tax reporting and backup withholding of U.S. federal income tax may apply to payments made by a payor in the United States or by a U.S. middleman to a beneficial owner of the notes, or to proceeds from the sale by such owners of the notes, if such owner is not an "exempt recipient" and fails to provide certain identifying information (such as the owner's taxpayer identification number) in the required manner, or the Internal Revenue Service, or IRS, otherwise directs the payor to withhold. Any amounts withheld under the backup withholding rules from payments to a beneficial owner would be allowed as a refund or a credit against such beneficial owner's U.S. federal income tax provided the required information is furnished to the IRS in a timely manner.

Medicare Tax

A U.S. Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, is subject to a 3.8% tax on the lesser of (1) such U.S. Holder's ''net investment income'' (or undistributed "net investment income" in the case of estates and trusts) for the relevant taxable year and (2) the excess of such U.S. Holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between U.S.$125,000 and U.S.$250,000, depending on the individual's circumstances). A U.S. Holder's net investment income will generally include its gross dividend income and its net gains from the disposition of the notes, unless such dividend or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a U.S. Holder that is an individual, estate or trust, you are urged to consult your tax advisor regarding the applicability of this tax to your income and gains in respect of your investment in the notes.

The above summary is not intended to constitute a complete analysis of all U.S. federal income tax consequences relating to purchasing, holding and disposing of the notes. Prospective investors in the notes should consult their own tax advisors concerning the tax consequences in their particular situations.

PLAN OF DISTRIBUTION

Subject to the terms and conditions of the purchase agreement between us and the initial purchasers, we have agreed to sell to the initial purchasers, and each of the initial purchasers has, severally and not jointly, agreed to purchase from us, the principal amounts of notes listed opposite its name in the table below at the initial offering price set forth on the cover page of this offering memorandum, less discounts and commissions:

Initial Purchasers	**Principal Amount of Notes**
BBVA Securities Inc.	U.S.$165,178,000
HSBC Securities (USA) Inc.	165,178,000
Citigroup Global Markets Inc.	84,822,000
Credit Suisse Securities (USA) LLC	84,822,000
Total	U.S.$500,000,000

The purchase agreement provides that the obligations of the several initial purchasers to purchase the notes offered hereby are subject to certain conditions precedent and that the initial purchasers will purchase all of the notes offered by this offering memorandum if any of these notes are purchased. Each of the initial purchasers may offer and sell the notes through certain of its affiliates. The offering of the notes by the initial purchasers is subject to receipt and acceptance and subject to the initial purchasers' right to reject any order in whole or in part.

We have agreed to indemnify the initial purchasers against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that the initial purchasers may be required to make in respect of any of these liabilities.

The notes have not been, and will not be, registered under the Securities Act. Each initial purchaser has agreed that it will offer or sell the notes only (i) in the United States to qualified institutional buyers in reliance on Rule 144A or (ii) in offshore transactions in reliance on Regulation S. The notes being offered and sold pursuant to Regulation S may not be offered, sold or delivered in the United States or to, or for the account or benefit of, any U.S. person, unless the notes are registered under the Securities Act or an exemption from, the registration requirements thereof is available. Resales of the notes are restricted as described under "Transfer Restrictions."

Until forty (40) days after the later of the commencement of the offering and the closing date, any offer or sale of notes within the United States by a broker-dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act, unless such offer or sale is made pursuant to Rule 144A or another available exemption from the registration requirements thereof. Terms used above have the meanings given to them by Regulation S and Rule 144A.

New Issue of Securities

The notes are a new issue of securities without an established trading market. We intend to have the notes listed only on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market thereof; however, there can be no assurance that the notes will be accepted for listing. See "Listing and General Information."

The initial purchasers may make a market in the notes after completion of the offering, but will not be obligated to do so and may discontinue any market making activities at any time without notice. No assurance can be given as to the liquidity of the trading market for the notes or that an active market for the notes will develop. If an active public trading market for the notes does not develop, the market price and liquidity of the notes may be adversely affected. If the notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors.

No Sales of Similar Securities

We have agreed that we will not, for a period of 60 days after the date of this offering memorandum, without the prior written consent of the initial purchasers, issue, sell, offer or agree to sell, grant any option for the sale of, or otherwise dispose of, any other debt securities similar to the notes offered hereby, or securities that are convertible into, or exchangeable into debt securities similar to the notes offered hereby, except for the notes sold to the initial purchasers pursuant to the purchase agreement.

Stabilization Transactions

In connection with this offering, the initial purchasers, or any person acting for any of them, may over-allot or effect transactions with a view to supporting the market price of the notes at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there is no obligation for the initial purchasers, or any person acting for any of them, to do this. Such stabilizing, if commenced, may be discontinued at any time.

Sales Outside the United States

Neither we nor the initial purchasers are making an offer to sell, or seeking offers to buy, the notes in any jurisdiction where the offer and sale is not permitted. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the notes or possess or distribute this offering memorandum, and you must obtain any consent, approval or permission required for your purchase, offer or sale of the notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. Neither we nor the initial purchasers will have any responsibility therefor.

Notice to Prospective Investors in Colombia

The notes may not be offered, sold or negotiated in Colombia, except under circumstances which do not constitute a public offering of securities under applicable Colombian securities laws and regulations. Furthermore, foreign financial entities must abide by the terms of Decree 2555 of 2010 to offer privately the notes to their Colombian clients.

Notice to Prospective Investors in the European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive, or Relevant Member State, each initial purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, or the Relevant Implementation Date, it has not made and will not make an offer of notes which are the subject of the offering contemplated by this offering memorandum to the public in that Relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the initial purchasers for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of notes shall require the Company or any initial purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

This offering memorandum has been prepared on the basis that any offer of notes in any Relevant Member State will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish an offering memorandum for offers of notes. Accordingly any person making or intending to make an offer in that Relevant Member State of notes which are the subject of the offering contemplated in this offering memorandum may only do so in circumstances in which no obligation arises for the Company or any of the initial purchasers to publish an offering memorandum pursuant to Article 3 of the Prospectus Directive in relation to such offer. Neither the Company nor the initial purchasers have authorized, nor do they authorize, the making of any offer of notes in circumstances in which an obligation arises for the Company or the initial purchasers to publish an offering memorandum for such offer.

For the purposes of this provision, the expression an "offer of notes to the public" in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe for the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, and the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

Notice to Prospective Investors in the United Kingdom

Each initial purchaser has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act, or FSMA) received by it in connection with the issue or sale of the notes in circumstances in which Section 21(1) of the FSMA does not apply to the Company; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

Notice to Prospective Investors in Hong Kong

The notes may not be offered or sold in Hong Kong by means of any other document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Notice to Prospective Investors in Italy

The offer of the notes has not been registered with the Italian Securities and Exchange Commission (*Commissione Nazionale per le Società e la Borsa*, or the CONSOB) pursuant to Italian securities legislation and, accordingly, the notes may not be offered, sold or distributed, to the public in the Republic of Italy, or Italy, nor may copies of this offering memorandum or of any other document relating to the notes be distributed in Italy, except:

(i) to qualified investors (*investitori qualificati*), as defined in Article 2, paragraph (e) of the Prospectus Directive as implemented by Article 34-ter of CONSOB Regulation No. 11971 of May 14, 1999, as amended from time to time, or the Issuers Regulation; or

(ii) in any other circumstances where an express exemption from compliance with the restrictions on offers to the public applies, as provided under Article 100 of the Italian Legislative Decree No. 58 of February 24, 1998, as amended from time to time, or the Financial Services Act, and Article 34-ter of the Issuers Regulation.

Moreover, and subject to the foregoing, any offer, sale or delivery of the notes or distribution of copies of this offering memorandum or any other document relating to the notes in Italy under (i) or (ii) above must be:

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007, as amended from time to time, and Legislative Decree No. 385 of 1 September 1993, as amended from time to time, or the Banking Act;

(ii) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in Italy; and

(iii) in compliance with any other applicable laws and regulations or requirement imposed by the Bank of Italy, CONSOB or other Italian authority.

Any investor purchasing the notes in the offering is solely responsible for ensuring that any offer or resale of the notes it purchased in the offering occurs in compliance with applicable Italian laws and regulations.

Notice to Prospective Investors in Japan

The notes offered in this offering memorandum have not been registered under the Securities and Exchange Law of Japan, and the notes have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law, and (ii) in compliance with any other applicable requirements of Japanese law.

Notice to Prospective Investors in Singapore

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore, or the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with conditions set forth in the SFA.

Where the notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

- shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the notes pursuant to an offer made under Section 275 of the SFA except:

- to an institutional investor (for corporations, under Section 274 of SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than U.S.$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;

- where no consideration is or will be given for the transfer; or

- where the transfer is by operation of law.

Notice to Prospective Investors in Switzerland

The notes may not and will not be publicly offered, distributed or redistributed on a professional basis in or from Switzerland only on the basis of a non-public offering, and neither this offering memorandum nor any other solicitation for investments in the notes may be communicated or distributed in Switzerland in any way that could constitute a public offering within the meaning of articles 652a or 1156 of the Swiss Federal Code of Obligations or of Article 2 of the Federal Act on Investment Funds of March 18, 1994. This offering memorandum may not be copied, reproduced, distributed or passed on to others without the initial purchasers' prior written consent. This offering memorandum is not a prospectus within the meaning of Articles 1156 and 652a of the Swiss Code of Obligations or a listing prospectus according to article 32 of the Listing Rules of the Swiss exchange and may not comply with the information standards required thereunder. We will not apply for a listing of the notes on any Swiss stock exchange or other Swiss regulated market and this offering memorandum may not comply with the information required under the relevant listing rules. The notes have not been and will not be approved by any Swiss regulatory authority. The notes have not been and will not be registered with or supervised by the Swiss Federal Banking Commission, and have not been and will not be authorized under the Federal Act on Investment Funds of March 18, 1994. The investor protection afforded to acquirers of investment fund certificates by the Federal Act on investment Funds of March 18, 1994 does not extend to acquirers of the notes.

Notice to Prospective Investors in the Republic of China

Each initial purchaser has agreed that, as part of the distribution of the notes, it has not offered or sold, and will not offer or sell, any note directly or indirectly in the Republic of China; each initial purchaser also understands and has acknowledged that the notes may not be sold to any related person of us (as defined in the Republic of China Statement of Financial Accounting Standards No. 6) or any person listed in Article 36 of the Chinese Securities Association Regulations Governing Underwriting and Resale of Securities by Securities Firms.

Certain Relationships

In the ordinary course of business, the initial purchasers and their affiliates have provided, and may in the future provide, investment banking, commercial banking, cash management, foreign exchange or other financial services to us and our affiliates for which they have received customary compensation and may receive compensation in the future.

In addition, in the ordinary course of their business activities, the initial purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. Certain of the initial purchasers or their affiliates that have a lending relationship with us routinely hedge their credit exposure to us consistent with their customary risk management policies. Typically, such underwriters and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the notes offered hereby. Any such short positions could adversely affect future trading prices of the notes offered hereby. The initial purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Settlement

Delivery of the notes is expected on or about March 30, 2015, which will be the third business day following the date of pricing of the notes (this settlement cycle being referred to as "T+3").

TRANSFER RESTRICTIONS

The notes have not been registered, and will not be registered, under the Securities Act or any state securities laws, and the notes may not be offered or sold except pursuant to an effective registration statement or pursuant to transactions exempt from, or not subject to, registration under the Securities Act. Accordingly, the notes are being offered and sold only:

- in the United States to qualified institutional buyers (as defined in Rule 144A) pursuant to Rule 144A; and
- outside of the United States, to certain persons, other than U.S. persons, in offshore transactions meeting the requirements of Rule 903 of Regulation S.

Purchasers' Representations and Restrictions on Resale and Transfer

Each purchaser of notes (other than the initial purchasers in connection with the initial issuance and sale of notes) and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

(1) it is purchasing the notes for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (a) a qualified institutional buyer and is aware that the sale to it is being made pursuant to Rule 144A or (b) a non-U.S. person that is outside the United States;

(2) it acknowledges that the notes have not been registered under the Securities Act or with any securities regulatory authority of any state and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;

(3) it understands and agrees that notes initially offered in the United States to qualified institutional buyers will be represented by a global note and that notes offered outside the United States pursuant to Regulation S will also be represented by a global note;

(4) it will not offer, sell, pledge or otherwise transfer any of such notes except (a) to us or any of our subsidiaries, (b) to a qualified institutional buyer in compliance with Rule 144A, (c) in an offshore transaction complying with the requirements of Rule 903 or Rule 904 of Regulation S, (d) pursuant to an exemption from registration under the Securities Act (if available) or (e) pursuant to a registration statement that has become effective under the Securities Act and in accordance with all applicable securities laws of the States of the United States and other jurisdictions;

(5) it agrees that it will give to each person to whom it transfers the notes notice of any restrictions on transfer of such notes;

(6) it acknowledges that prior to any proposed transfer of notes (other than pursuant to an effective registration statement or in respect of notes sold or transferred either pursuant to (a) Rule 144A or (b) Regulation S) the holder of such notes may be required to provide certifications relating to the manner of such transfer as provided in the indenture;

(7) it acknowledges that the trustee, registrar or transfer agent for the notes may not be required to accept for registration or transfer of any notes acquired by it, except upon presentation of evidence satisfactory to us that the restrictions set forth herein have been complied with;

(8) it acknowledges that we, the initial purchasers and other persons will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its purchase of the notes are no longer accurate, it will promptly notify us and the initial purchasers; and

(9) if it is acquiring the notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

Legends

The following is the form of restrictive legend which will appear on the face of the Rule 144A global note and which will be used to notify transferees of the foregoing restrictions on transfer. This legend will only be removed with our consent. If we so consent, it will be deemed to be removed.

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE OR OTHER SECURITIES LAWS, AND MAY NOT BE OFFERED, SOLD, PLEDGED, OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT IT, AND ANY ACCOUNT FOR WHICH IT IS ACTING, (A) IS A "QUALIFIED INSTITUTIONAL BUYER" (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) OR (B) IS NOT A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN "OFFSHORE TRANSACTION" PURSUANT TO RULE 903 OR 904 OF REGULATION S AND, WITH RESPECT TO (A) AND (B), EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO SUCH ACCOUNT; (2) AGREES FOR THE BENEFIT OF THE ISSUER THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN, EXCEPT (A) (I) TO THE ISSUER OR ANY SUBSIDIARY THEREOF, (II) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, (III) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, (IV) IN AN OFFSHORE TRANSACTION COMPLYING WITH THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (V) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE), AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS; AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION," "UNITED STATES" AND "U.S. PERSON" HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH PARAGRAPH 2A(V) ABOVE, THE ISSUER RESERVES THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS, OR OTHER EVIDENCE AS MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

The following is the form of restrictive legend which will appear on the face of the Regulation S global note and which will be used to notify transferees of the foregoing restrictions on transfer:

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE OR OTHER SECURITIES LAWS. PRIOR TO EXPIRATION OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED IN REGULATION S ("REGULATION S") UNDER THE SECURITIES ACT), THIS SECURITY MAY NOT BE REOFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S), EXCEPT TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF THE INDENTURE REFERRED TO HEREIN.

Other Jurisdictions

The distribution of this offering memorandum and the offer and sale or resale of the notes may be restricted by law in certain jurisdictions. Persons into whose possession this offering memorandum comes are required by us and the initial purchasers to inform themselves about and to observe any such restrictions.

LEGAL MATTERS

Certain matters of U.S. and New York law relating to the notes will be passed upon for us by White & Case LLP, our special U.S. counsel, and for the initial purchasers by Davis Polk & Wardwell LLP, special U.S. counsel to the initial purchasers.

Certain matters of Colombian law relating to the notes will be passed upon for us by Brigard & Urrutia Abogados S.A.S., our Colombian counsel. Cárdenas & Cárdenas Abogados Ltda., Colombian counsel to the initial purchasers, will pass upon certain matters of Colombian law relating to the notes for the initial purchasers.

INDEPENDENT AUDITORS

Our financial statements as of and for the years ended December 31, 2014, 2013 and 2012, included in this offering memorandum, have been audited by Ernst & Young Audit S.A.S, independent auditors as stated in their reports appearing herein.

LISTING AND GENERAL INFORMATION

1. The notes have been accepted for clearance and settlement through DTC, Euroclear and Clearstream. The CUSIP and ISIN numbers for the notes are as follows:

	Restricted Global Note	Regulation S Global Note
CUSIP	19533P AB6	P28768 AB8
ISIN	US19533PAB67	USP28768AB86
Common Code	121187795	121188384

2. Copies of the issuer's latest audited annual financial statements and unaudited quarterly financial information, and copies of its by-laws, as well as the indenture (including forms of notes), will be available (at our expense) at the offices of any paying agent, including the Luxembourg listing agent.

3. Except as disclosed in this offering memorandum, there has been no material adverse change in the issuer's financial position since December 31, 2014, the date of the issuer's latest unaudited financial information included in this offering memorandum.

4. We have applied to list and admit the notes for trading on the Euro MTF Market of the Luxembourg Stock Exchange. We will comply with any undertakings assumed or undertaken by us from time to time to the Euro MTF Market of the Luxembourg Stock Exchange in connection with the notes, and we will furnish to them all such information as the rules of the Euro MTF Market of the Luxembourg Stock Exchange may require in connection with the listing of the notes.

5. The issuance of the notes was authorized by our Board of Directors on December 15, 2014 and by our shareholders on January 6, 2014.

ANNEX A

SUMMARY OF CERTAIN SIGNIFICANT DIFFERENCES BETWEEN COLOMBIAN GAAP AND IFRS

The financial statements included in this offering memorandum have been prepared in accordance with Colombian GAAP. See "Presentation of Financial and Other Information—Financial Statements—Accounting Principles."

There are certain significant differences between Colombian GAAP (regulated by Decree 2649 of 1993, in addition to regulations enacted by the Superintendency of Corporations) and IFRS, which may be relevant to the financial information presented herein. We have made no attempt to identify or quantify the impact of these differences. We have summarized certain aspects of these differences, but this summary does not purport to be complete and should not be considered exhaustive. See "Risk Factors—Risks Relating to Our Business and the Colombian Telecommunications Industry—Our adoption of IFRS as of January 1, 2015 will result in the recognition of our PARAPAT Payment Obligations as liabilities on our balance sheet, among other effects on our financial statements" and "—We expect that our adoption of IFRS will result in stockholders' equity of less than 50% of our capital stock, which could trigger a mandatory dissolution proceeding under Colombian law."

Investors should also consider the following:

- future differences between Colombian GAAP and IFRS resulting from changes in accounting standards or from future transactions or events have not been taken into account in this summary, and we have made no attempt to identify them;
- new regulations by bodies that promulgate Colombian GAAP and IFRS may affect future comparisons between Colombian GAAP and IFRS, as well as this summary;
- this summary does not purport to be complete and is subject and qualified in its entirety by reference to the respective pronouncements of Colombian GAAP and IFRS;
- we have made no attempt to identify differences that affect only footnote disclosures. The level of disclosure in the notes to the financial statements may also differ significantly;
- this summary does not address differences related solely to classification of amounts in the financial statements or footnote disclosures;
- in some cases, IFRS offers a choice between different accounting treatments for the same transaction and event, or IFRS is silent on particular issues. Issuers of financial statements may choose the treatment that is most relevant to their business;
- in applying IFRS for the first time, a first-time adopter should prepare financial statements as if it had always applied IFRS, but there are a number of exemptions and exceptions that allow or require a first-time adopter to deviate from the general rule. See "Presentation of Financial and Other Information—Financial Statements—Effects of IFRS Adoption" and "Summary—First-time Adoption of IFRS;" and
- in making an investment decision, investors must rely upon their own examination of the business, terms of the offering and financial information. Potential investors should consult their own professional accounting, legal and tax advisors for an understanding of the differences between Colombian GAAP and IFRS and
- how those differences might affect the financial information contained herein.

Statement of changes in financial position

Colombian GAAP

A statement of changes in financial position is required. This statement reflects the net change in working capital resulting from financial resources provided and financial resources used. Financial resources provided include a detailed analysis of working capital provided by operations. In addition to this statement, Colombian GAAP requires a statement of cash flows.

IFRS

A separate statement of changes in financial position is not required.

Functional and presentation currency

Colombian GAAP

Article 8 of Decree 2649 of 1993 defines as measurement unit the functional currency, which, for purposes of this regulation, is not defined in the same manner as provided by IFRS. The items included in our financial statements in accordance with Article 50 of Decree 2649 of 1993 consider the *peso* as the functional currency in Colombia.

IFRS

Items are measured using the currency of the primary economic environment in which the entity operates, which is usually where the entity generates and uses cash (the "functional currency"), which could differ from local currency. When the factors or indicators that an entity needs to consider in determining the functional currency are mixed and the functional currency is not obvious, the standard requires that management uses its judgment to determine which currency should be used.

Price-level restatement

Colombian GAAP

From January 1, 1992 through December 31, 2006, our financial statements were adjusted for the effects of inflation on the basis of changes in the middle-income IPC, with a one-month lag, as required by the DANE. The IPC was applied to all non-monetary assets, liabilities and shareholders' equity accounts, except for the revaluation of fixed assets and the current year net profit accounts. The net gain (loss) from exposure to inflation was reflected as "Monetary correction" in our statements of income.

IFRS

Price-level restatement only applies to the financial statements of an entity where the functional currency of such entity is one related to a hyperinflationary economy. This does not apply to Colombia.

Revenue recognition

Colombian GAAP

Under Section 38 of Decree 2649 of 1993, during a period, revenues are the gross inflow of economic benefits arising in the ordinary course of an entity when such inflows result in increases in equity other than increases relating to contributions from equity participants. No specific guidance is stated for how entities in the telecommunications industry should recognize revenue.

IFRS

IAS 18 contains general principles and illustrative examples of revenue recognition specific transactions. Revenue is recognized only when risks and rewards of ownership have been transferred, the buyer has control of the goods, revenues can be measured reliably and it is probable that the economic benefits will flow to the company. IAS 18 requires recognition of revenue related to an element of a transaction if that element has commercial substance on its own; otherwise, the separate elements must be linked and accounted for as a single transaction. IAS 18 does not provide specific criteria for making this determination, though most telecommunications operators use U.S. GAAP as a reference.

Business combinations

Colombian GAAP

Business combinations are accounted for under the purchase method of accounting. The acquired assets and liabilities are recognized at their carrying values, without accounting for intangible assets previously not recognized in the acquired company. Goodwill represents the excess of the purchase price over the book value of the net assets acquired. Goodwill is amortized over a maximum period of 20 years. Combinations of entities under common control are typically recognized at their carrying value. The restatement approach is not permitted in Colombia.

IFRS

Business combinations are accounted for in accordance with IFRS 3R which requires the purchase method of accounting, which states that the cost of an investment is assigned to the tangible and intangible assets acquired and liabilities assumed on the basis of their fair values on the date of acquisition. An excess of cost over the fair value of net assets acquired is recorded as goodwill. Assets acquired from controlling related parties are recorded at their historical value. Goodwill is not amortized under IFRS, but is rather tested for impairment on an annual basis by applying a fair-value based test (a step-by-step test) at the level of the reporting unit to which goodwill at the time of the business combination had been assigned.

Combinations of entities under common control are outside the scope of IFRS 3R. In practice, such combinations either follow an approach similar to U.S. GAAP or apply the acquisition method if there is substance to the transaction.

Consolidation of variable interest entities

Colombian GAAP

Subsidiaries are consolidated in accordance with the global integration method when control exists, which is usually presumed to occur when ownership exceeds 50% of the current voting rights. Current Colombian accounting rules do not require special treatment or identification for variable interest entities or special purposes entities.

IFRS 10 and 11

Subsidiaries are consolidated when control exists, with control defined as the parent's ability to govern the financial and operating policies of an entity to obtain benefits. Control is presumed to exist if the parent owns more than 50% of the voting rights, including potential voting rights. Control may also exist where there is "de facto control" by the parent.

IFRS 10 includes a new definition of control that determines which entities are consolidated. IFRS 10 replaces the provisions of IAS 27-Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12-Consolidation—Special Purpose Entities. IFRS 11 describes the accounting for arrangements in which there is joint control; proportionate consolidation is not permitted for joint ventures (as newly defined). IFRS 11 replaces IAS 31-Interests in Joint Ventures and SIC 13-Jointly Controlled Entities—Non-

Monetary Contributions by Venturers. IFRS 12 sets out the disclosure requirements for subsidiaries, joint ventures, associates and "structured entities." IFRS 12 replaces the requirements previously included in IAS 27, IAS 31 and IAS 28-Investments in Associates.

The adoption of IFRS 10 and IFRS 11 may lead to significant changes in an entity's reported financial position and performance. For some companies, the new definition of control will lead to consolidation of entities that were not previously included in the group, potentially resulting in more assets and liabilities on the books. Similarly, some joint arrangements that are accounted for using proportionate consolidation under current IFRS are accounted for using the equity method under IFRS 11. This will result in recognizing a single line item for the investment and the reporting entity's share of the joint arrangement's profit or loss. Conversely, certain joint arrangements that are currently accounted for using the equity method may be considered joint operations under the new standard. For those arrangements, the joint operator will recognize its assets, liabilities, revenues, and expenses, and/or its share of those items, if any; that is, the single investment line item will have to be disaggregated into its components on the balance sheet and income statement.

A common feature of both IFRS 10 and IFRS 11 is that they require considerably more accounting judgment than required under previous standards, as they remove certain previously-existing "bright line" rules.

Property, plant and equipment, and recoverability

Colombian GAAP

The acquired property, plant and equipment is initially valued at cost, including the assignable portion of purchase and exchange gains and losses related to foreign currency denominated liabilities incurred for the purchase or building of property, plant and equipment. After initial recognition, acquired property is measured at original cost less accumulated depreciation. The revaluation method is not allowed for this type of assets.

There are no specific guidelines for impairment tests. Reappraisal of property, plant and equipment is performed at least every three years with increases recorded on the balance sheet under "reappraisal of fixed assets" which is offset against "surplus from reappraisal of fixed assets" within shareholders' equity. Reappraisals are performed and recorded on a specific asset group basis. If the reappraisal results in a decrease in the appraisal value of the specific asset group in comparison with the prior period, the decrease is charged first against any existing surplus with any remainder being charged to income statements.

IFRS

Property and equipment is initially measured at purchase cost plus any disbursement directly attributable to the transaction. After the initial recognition, the entity should choose the revaluation model (fair value) or the cost model as an accounting policy. Fair value will reflect the market conditions at the end of the reporting period. Properties being used by the company and if the revaluation model is chosen, if the book value was to increase as a result of a revaluation, this increase is recognized directly as an income (loss).

Investment property is separately defined in IAS 40 as an asset held to earn rent or for capital appreciation (or both) and may include property held by leases under finance or operating lease. Investment property may be accounted for on a historical cost basis or on a fair value basis as an accounting policy election. Capitalized operating leases classified as investment property must be accounted for using the fair value model. Any income or loss arising from a change in the fair value of investment property is included in the income statement for the period in which they arose.

The one-step approach requires that impairment testing be performed if impairment indicators exist. The amount by which the carrying amount of the asset exceeds its recoverable amount; recoverable amount is the higher of (i) fair value less costs to sell or (ii) value in use, which is the present value of future cash flows in use including disposal value.

IFRS 13 (Fair Value Measurement) applies to IFRSs that require or permit fair value measurements or disclosures and provides a single IFRS framework for measuring fair value and requires disclosures about fair value measurement. This standard defines fair value on the basis of an "exit price" and uses a "fair value hierarchy," which results in a market-based, rather than entity-specific, measurement.

Financial leases

Colombian GAAP

There are no specific rules for the accounting of leases. As per Article 127-1 of the Colombian tax code, real estate leasing contracts which exceed 60 months; machinery and equipment, furniture and fixtures exceeding 36 months; and productive vehicles and computer equipment exceeding 24 months, are considered and accounted as an operating lease. The capitalization of financial leases is permitted upon meeting a set of rules provided in the tax provisions. Under section 65 of Act 1111 of 2006 all lease contracts with a purchase option, subscribed from January 1, 2012 and any time thereafter should be recorded, at lease inception, as an asset and a liability for the total value of the asset under lease. Specific guidance was issued by the Colombian General Accounting Office (*Contaduría General de la Nación*) in 2004 in relation to the accounting treatment of the PARAPAT Agreement, stating that it should be accounted for as an operating lease.

IFRS

IAS 17 requires the party that bears substantially all the risks and rewards of ownership of the leased property to recognize a lease asset and corresponding obligation, and provide criteria or indicators to determine whether a lease is capital or operating. The criteria or indicators of a capital lease include the transfer of ownership to the lessee at the end of the lease term and a purchase option that, at inception, is reasonably expected to be exercised.

Deferred income taxes

Colombian GAAP

Income tax is calculated on estimates of taxable profit or loss. The tax effects of revenue, cost and expense items that are reported for tax purposes in years other than those in which they are recorded for accounting purposes are accounted for as deferred income taxes in accordance with legislation. In accordance with a provision of the Council of the State of Colombia, the recognition of deferred taxes for tax benefits (tax losses or similar) is not allowed.

IFRS

Income tax is calculated based on the liability method of accounting. The provision for income taxes includes amounts currently payable and amounts deferred as tax assets and liabilities, based on differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities, and is measured using the enacted tax rates that are assumed is in effect when the differences reverse. The recognition of deferred taxes for tax benefits (tax losses or similar) is allowed, provided that where a reasonable expectation exists, such differences will reverse or such tax benefits may be used to offset our income tax expense, based on our estimated future profits for tax purposes. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Derivative financial instruments

Colombian GAAP

There are no specific rules for the accounting of derivative financial instruments and the policies adopted by us are described in our financial statements. Current Colombian accounting rules do not consider the existence of derivative instruments embedded in other contracts and, therefore, they are not reflected in the financial statements.

IFRS

Any instrument satisfying the definition of a "derivative" must be recorded in the balance sheet as either an asset or liability measured at fair value. In order to qualify for hedge accounting under IFRS, strict documentation rules must be followed. A company must document and disclose its risk management objectives and strategy for undertaking the hedge and must set out a basis for how it plans to assess the hedging instrument's effectiveness. For those not using hedge accounting under IFRS, mark-to- market adjustments are charged (credited) against income at each period. Extensive IFRS guidance for financial instruments is provided under IAS 32, IAS 39, IFRS 7 and IFRS 9. IFRS 9 will come into effect in Colombia as of January 1, 2015.

Memorandum accounts

Colombian GAAP

Certain items must be recorded in memorandum accounts, including contingent rights and liabilities, deferred taxes associated with tax loss carry forwards, fully depreciated fixed assets and the nominal value of forward transactions. Non-monetary memorandum accounts are adjusted for inflation with a charge or credit to reciprocal memorandum accounts.

IFRS

Memorandum accounts are not permitted under IFRS.

Other capitalized and deferred costs

Colombian GAAP

The capitalization and subsequent amortization of certain pre-operating and operating charges is permitted, including studies, investigations, government security taxes, some inflation adjustments and debt restructuring charges for which there is potential future benefit or savings can be proved.

IFRS

A prepayment is only recognized as an asset when payment for the goods or services is made in advance of the entity having access to the goods or receiving the services. For other deferred expenditures to be capitalized, refer to IAS 16, IAS 38 and IFRS 3.

Employee defined benefit plans

Colombian GAAP

A defined pension plan is accounted for based on certain assumptions, including a discount rate and future expected salary increases. Gains and losses are recognized in the income statement as they occur and no amortization is permitted. The remainders of the plans are accounted for as the liability is incurred. Under Colombian regulations, there is no requirement for assigning assets or creating funds to fund future pension or labor liabilities. Other defined termination plans are recorded typically in the income statement when they are established as a whole, rather than as the individual cost component of the plan. We do not currently have a pension plan in place.

IFRS

Pension plans and severance indemnity plans are accounted for under IAS 19. The projected benefit obligation of the plans are determined based on calculations considering factors such as age of the participants, years of service, compensation, interest rates, mortality, among others. Gains and losses may be recognized in the income statement as they occur or deferred through a corridor approach. However, entities can also elect to recognize gains and losses immediately in other comprehensive income. Gains or losses recognized immediately in other comprehensive income are not subsequently recognized in the income statement. For restructuring costs, once management has demonstrably committed (*i.e.*, a legal or constructive obligation has been incurred) to a detailed exit plan, the general provisions of IAS 37 apply. Costs typically are recognized earlier than similar costs would be under U.S. GAAP, as IAS 37 focuses on the exit plan as whole rather than individual cost components of the plan. We do not currently have a pension plan in place.

Government grants

Colombian GAAP

No specific guidance is available and grants are usually registered as income when the related asset is received by the company. Other regulations, such as applicable tax laws should be considered based on the specific transactions.

IFRS

IAS 20 is applied to accounting and disclosure of government grants and other forms of government assistance. The distinction between government grants and other forms of government assistance is important, as certain revenues may be recognized depending on the type of asset received and the accounting policy. For example, government grants related to assets, including non-monetary grants at fair value, are presented in the statement of financial position either by recording the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

New accounting standards for IFRS

New standards and interpretations have recently been issue by the International Accounting Standards Board, or IASB, and are effective for annual periods beginning on or after January 1, 2015.

IFRS 9

IFRS 9 includes requirements for the classification, measurement, impairment and general hedge accounting of financial assets and liabilities. The IASB completed its project to replace IAS 39 in phases, adding to the standard as it completed each phase. IFRS 9 replaces IAS 39-Financial Instruments: Recognition and Measurement.

IFRS 14

IFRS 14 (Regulatory Deferral Accounts) permits an entity which adopts IFRS for the first time to continue reporting (with limited variations) its “regulatory deferral account balances” in accordance with GAAP, both upon the initial adoption of IFRS and in subsequent financial statements. Regulatory deferral account balances and changes thereof are presented separately in the statement of operations and the profit and loss statement and other comprehensive income, and require specific disclosure. IFRS 14 will come into effect as from January 2016.

IFRS 15

IFRS 15 specifies how and when an entity must recognize revenues, requiring such reporters to provide more informative, relevant disclosures. IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. IFRS 15 replaces the following standards and interpretations:

- IAS 11 (Construction Agreements);
- IAS 18 (Revenue);
- IFRIC 13 (Customer Loyalty Programs);

- IFRIC 15 (Agreements for the Construction of Real Estate);
- IFRIC 18 (Transfers of Assets from Customers); and
- SIC-31 (Barter Transactions Regarding Advertising Services).

IFRIC 21

International Financial Reporting Interpretations Committee, or IFRIC, 21 clarifies that an entity must recognize a liability for a levy upon when the activity that triggers a certain payment actually occurs in accordance with the applicable regulation. IFRIC 21 also clarifies that liabilities which are subject to thresholds will not be levied before the actual threshold has been reached.

INDEX TO FINANCIAL STATEMENTS

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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

Contents

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

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
	(In thousands of Colombian pesos, Except for the net loss per share)	
Operating revenues *(Note 22)*	**$ 4,639,999,263**	$ 4,200,775,123
Cost of sales and of services rendered *(Note 23)*	**(1,868,219,708)**	(1,688,289,633)
Gross income before PARAPAT Payment Obligations	**2,771,779,555**	2,512,485,490
PARAPAT Payment Obligations	**(292,452,107)**	(148,463,768)
Gross income after PARAPAT Payment Obligations	**2,479,327,448**	2,364,021,722
Operating expenses:		
Administrative *(Note 24)*	**(378,616,798)**	(366,757,125)
Selling *(Note 24)*	**(631,549,145)**	(641,767,584)
Provisions *(Note 7 and 8)*	**(79,789,516)**	(65,582,830)
Operating income before depreciation and amortization	**1,389,371,989**	1,289,914,183
Depreciation and amortization of:		
Property, plant and equipment *(Note 11)*	**(628,464,798)**	(644,552,498)
Intangibles *(Note 9)*	**(155,388,309)**	(287,969,288)
Deferred charges *(Note 10)*	**(269,915,248)**	(284,412,183)
Total depreciation and amortization	**(1,053,768,355)**	(1,216,933,969)
Operating income	**335,603,634**	72,980,214
Non-operating (expenses) income:		
Financial expenses, net *(Note 26)*	**(363,777,374)**	(332,829,648)
Other non-operating income, net *(Note 27)*	**5,645,173**	3,257,055
Total non-operating expenses, net	**(358,132,201)**	(329,572,593)
Loss before income tax	**(22,528,567)**	(256,592,379)
Income tax *(Note 25)*	**33,842,819**	(5,420,352)
Net income (loss) of the year	**$ 11,314,252**	$ (262,012,731)
Net Income (loss) per share	**7.78**	(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	Ne
				(In thousands of Colombian pesos)			
At December 31, 2012	$ 1,454,870,740	$ 3,389,266,946	$ 86,809,595	$ 3,730,162	$ 575,104,158	$ (4,011,598,648)	$ (2
Movement of the year	–	–	–	–	(45,602,693)	(280,568,105)	2
Net loss of the year	–	–	–	–	–	–	(2
At December 31, 2013	1,454,870,740	3,389,266,946	86,809,595	3,730,162	529,501,465	(4,292,166,753)	(2
Transfers	–	–	(60,479,897)	–	–	60,479,897	
Movement of the year	–	–	–	–	(45,602,694)	(262,012,731)	2
Net income of the year	–	–	–	–	–	–	
At December 31, 2014	**$ 1,454,870,740**	**$ 3,389,266,946**	**$ 26,329,698**	**$ 3,730,162**	**$ 483,898,771**	**$ (4,493,699,587)**	**$**

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
	(In thousands of Colombian pesos)	
Financial resources were provided by (used in):		
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	**1,039,856,378**	959,672,457
Financial resources provided by (used in):		
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	**$ 307,916,697**	$ (226,693,441)
Changes in working capital components:		
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)
	154,054,388	4,647,360

Colombia Telecomunicaciones S.A. ESP

Statements of Changes in Financial Position (continued)

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

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
	(In thousands of Colombian pesos)	
Cash flows from operating activities:		
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	**1,059,148,659**	872,539,048
Cash flows from investing activities:		
(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	**(1,348,980,945)**	(1,119,367,406)
Cash flows from financing activities:		
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	**210,266,782**	246,111,564
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	**$ 56,091,112**	$ 135,656,616

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.

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:

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

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.

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 Television - (National Television Authority – ANTV, for its Spanish acronym) and the SIC.

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 31st, 2014.

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.

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.

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.

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 31st, 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.

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.

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 exceeding180 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.

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.

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.

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:

	Years	%
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.

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.

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.

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.

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

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.

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:

	In Dollars		In Colombian Pesos	
Class	**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)

5. Cash and Cash Equivalents

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

		2014		2013
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
	$	**56,091,112**	$	135,656,616

6. Investments

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

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

(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:

		2014		2013
Short-term:				
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 *(Note 28)*		**62,011,230**		57,463,305
Portfolio of subsidies and contributions (3)		**9,945,035**		14,694,308
Deposits and advances del delivered to third parties (6)		**2,361,442**		15,221,769
Provision for doubtful accounts (4)		**(746,265,632)**		(709,228,079)
		833,312,868		646,161,787

7. Accounts Receivable, Net (continued)

		2014		2013
Long-term:				
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)
		1,138,649,831		1,012,501,525
	$	**1,971,962,699**	$	1,658,663,312

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

Short-term				
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
	$	**98,500,755**	$	11,939,496
Long-term				
Other debtors – Valuation of hedging instruments (a) (Note 12)	**$**	**144,706,298**	$	61,083,147

(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.

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:

		2014		2013
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	**$**	**901,809,931**	$	866,710,067

(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.

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)
	$	**107,634,847**	$	79,559,332

The following is the movement of the provision for the protection of inventories during the year from January 1st 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	**$**	**4,945,070**	$	5,758,484

9. Intangibles, Net

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

2014		**Cost**		**Accumulated Amortization**		**Net book value**
Non amortizable						
Trust rights (1)	**$**	**25,665,220**	**$**	**–**	**$**	**25,665,220**
Amortizable						
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)**		**–**
	$	**4,351,229,446**	**$**	**(3,542,903,565)**	**$**	**808,325,881**

2013		**Cost**		**Accumulated Amortization**		**Net book value**
Non amortizable						
Trust rights (1)	$	28,692,143	$	–	$	28,692,143
Amortizable						
Mobile telephone concessions *(Note 3)*		2,479,656,413		(2,090,994,757)		388,661,656

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)	–
	$ 4,061,775,448	$ (3,402,366,703)	$ 659,408,745

(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
Short-term		
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
	13,306,485	11,192,177
Long-term		
Insurance	**4,892,379**	3,284,212
	4,892,379	3,284,212
	$ 18,198,864	$ 14,476,389

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

Net Deferred Charges

2014		**Cost**		**Accumulated Amortization**		**Net Book Value**
Projects:						
Infrastructure for service provision	**$**	**572,048,279**	**$**	**(471,137,497)**	**$**	**100,910,782**
SAP/ERP implementation and invoicing systems		**192,831,908**		**(191,006,222)**		**1,825,686**
Software		**1,189,128,027**		**(866,637,816)**		**322,490,211**
Projects in progress		**12,275,841**		**-**		**12,275,841**
Leasehold improvements		**152,682,841**		**(128,937,847)**		**23,744,994**
Equity tax *(Note 25)*		**136,808,082**		**(136,808,082)**		**–**
Deferred tax (debit)		**111,973,424**		**-**		**111,973,424**
Other deferred charges		**11,581,811**		**(157,460)**		**11,424,351**
	$	**2,379,330,213**	**$**	**(1,794,684,924)**	**$**	**584,645,289**

2013		**Cost**		**Accumulated Amortization**		**Net book value**
Projects:						
Infrastructure for service provision	$	573,922,685	$	(416,995,385)	$	156,927,300
SAP/ERP implementation and invoicing systems		192,831,908		(172,331,341)		20,500,567
Software		1,017,612,612		(686,139,977)		331,472,635
Projects in progress		16,392,325		–		16,392,325
Leasehold improvements		136,773,715		(104,780,224)		31,993,491
Equity tax *(Note 25)*		136,808,082		(91,205,388)		45,602,694
Other deferred charges		10,542,484		(101,099)		10,441,385
	$	2,084,883,811	$	(1,471,553,414)	$	613,330,397

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**
		354,342,531		**–**		**354,342,531**

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

2014	**Cost**	**Accumulated Amortization**	**Net Book Value**
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**
	7,365,915,263	**(4,424,481,483)**	**2,941,433,780**
	$ 7,720,257,794	**$ (4,424,481,483)**	**$ 3,295,776,311**

2013	**Cost**	**Accumulated Amortization**	**Net Book Value**
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
	525,010,030	–	525,010,030
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
	6,650,364,930	(4,071,509,706)	2,578,855,224
	$ 7,175,374,960	$ (4,071,509,706)	$ 3,103,865,254

(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).

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
	$ 5,576,954,932	$ (2,885,944,810)	$ 2,691,010,122	$ 2,788,719,490	$ 97,709,368

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
	$ 5,851,371,385	$ (3,148,415,582)	$ 2,702,955,803	$ 2,924,155,393	$ 221,199,590

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
	$ 146,874,868	

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

(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	15,000,000	DTF 1.25 % Annual
	77,000,000	
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	19,987,863	Libor 3M +1.35 % Annual
	296,278,104	
	$ 373,278,104	

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
	1,409,140,683	
In foreign currency		
Credits in foreign currency (a)	258,438,600	Libor 6M +0.39 % Semiannual
	$ 1,667,579,283	

(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:

	2014		2013	
Maturity	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
	$ 1,505,910,683	**$ 759,820,785**	$ 1,486,140,683	$ 554,716,704

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:

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)		**75,442,124**		(19,695,510)
Long term:				
Per financial exchange rate*		**144,706,298**		61,083,147
Total asset position (Note 7)	$	**144,706,298**	$	61,083,147

* 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)	$	**245,167,894**	$	(98,903,145)

13. Suppliers and Accounts Payable

Suppliers and accounts payable at December 30 are detailed below:

		2014		2013
Short-term:				
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
	$	**966,782,973**	$	1,005,774,756
Long term				
Long term cost and expenses payable	$	**182,689,984**	$	–

14. Taxes, Levies and Rates

Taxes, Levies and Rates are detailed at December 31:

		2014		2013
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
	$	**147,774,617**	$	147,291,091

15. Labor liabilities

Labor liabilities are detailed at December 31:

		2014		2013
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
	$	**25,552,941**	$	23,716,158

16. Estimated Liabilities and Provisions

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

		2014		2013
Short-term:				
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
	$	**282,007,184**	$	380,516,878
Long-term:				
Long-term contingencies *(Note 29)*	$	**18,663,864**	$	8,413,335

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

(1) The costs and expenses account includes:

		2014		2013
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
	$	**200,247,136**	$	323,408,012

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

17. Deferred Liabilities

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

		2014		2013
Short-term:				
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
	$	**31,878,143**	$	41,156,552
Long-term:				
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
	$	**208,982,644**	$	153,152,189

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
		67,010,186		117,455,281
Less – Other long-term liabilities (3)		**22,984,415**		85,026,493
	$	**44,025,771**	$	32,428,788

(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
	$	**23,718,118**	$	71,781,366

(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

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)	**$ 1,794,345,000**	$ 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.

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)	1,000

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

Companies	N° of Shares	Value
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
	1,454,870,740	$ 1,454,870,740

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.

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:

	2014	2013
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 *(Note 12)*	**25,019,472**	-
	824,549,996	506,122,256
Tax accounts: *(Note 25)*		
Accumulated tax losses	**2,519,495,675**	2,504,062,309
Excess of presumptive income	**118,867,581**	186,339,993
	2,638,363,256	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
	3,826,117,949	3,214,553,281
Total debit memorandum accounts	**$ 7,289,031,201**	$ 6,411,077,839

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
	7,937,688,608	8,972,254,900
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
	831,033,119	815,310,249
Control accounts:		
Assets corresponding to TELECOM and Teleasociadas in liquidation, net	**778,713,750**	901,136,669
Equity inflation adjustments	**483,898,771**	529,501,465
	1,262,612,521	1,430,638,134
Total credit memorandum accounts	**$ 10,031,334,248**	$ 11,218,203,283

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
	$ 4,639,999,263	$ 4,200,775,123

(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).

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:

	2014	2013
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
	$ 1,868,219,708	$ 1,688,289,633

(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.

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
	$	**378,616,798**	$	366,757,125
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
	$	**631,549,145**	$	641,767,584
Provisions:				
Doubtful accounts *(Note 7)*	**$**	**76,971,916**	$	65,288,291
Protection of inventories *(Note 8)*		**2,817,600**		294,539
	$	**79,789,516**	$	65,582,830

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.

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

	2014	2013
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

25. Income Tax (continued)

	2014	2013
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)	**$ 97,827,763**	$ (182,179,968)
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	**$ 33,975,149**	$ (5,420,352)

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:

	2014
Deferred income tax assets:	
Opening balance	**$ –**
Year movement	**$111,973,424**
End balance	**111,973,424**
Deferred income tax liabilities:	
Opening balance	**–**
Year movement	**(69,193,785)**
End balance	**(69,193,785)**
Net deferred income tax	**$ 42,779,639**

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.

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
Accounting equity	**$ 973,420,350**	$ 1,131,199,014
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
Net tax equity	**$ 1,684,097,139**	$ 1,822,679,992

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
	$ 2,221,340,692	$ 322,125,108	$ 2,543,465,800		$ 23,970,125	$ 2,519,495,675

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
	$ 170,760,936	$ 20,964,282	$ 191,725,218		$ 72,857,637	$ 118,867,581

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

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:

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

(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	(97)
CREE Tax Basis	97,827,665
Tax for equity CREE	$ 8,804,490

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 1st, 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	$ 76,617,602
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	$ 105,793,167

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 1st 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 31st, 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.

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 theIncome 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
	9,621,332	13,577,161
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)
	(373,398,706)	(346,406,809)
	$ (363,777,374)	$ (332,829,648)

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

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
	$	**70,546,371**	$	46,880,296
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)
		(64,901,198)		(43,623,241)
	$	**5,645,173**	$	3,257,055

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	**$**	**2,746,280**	$	2,691,379	**$**	**1,043,777**	$	5,098,492
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		**2,410,438**		322,956		**29,430,434**		24,453,850
Total shareholders	**$**	**5,156,718**	$	3,014,335	**$**	**30,474,211**	$	29,552,342

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

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**	–
Total Domestic	**$ 11,846,992**	$ 16,736,573	**$ 39,565,386**	$ 35,982,135
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	**–**	–

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

b) Related Parties (continued)

	Accounts Receivable 2014	Accounts Receivable 2013	Accounts Payable 2014	Accounts Payable 2013
Terra Networks México, S.A. de C.V.	–	14,867	–	–
Telefónica Czech Republic A.S.	–	4,178	–	7,920
02 Comunication (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	**$ 67,556,159**	$ 33,516,565	**$ 49,501,801**	$ 45,840,481
Total related parties	**$ 79,403,151**	$ 50,253,138	**$ 89,067,187**	$ 81,822,616

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

c) Associated Companies

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

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 1st to December 31 with shareholders, related parties and associated companies:

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 Comunication (Ireland) Ltd.	**–**	17,211	**7,287**	1,815

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 Latín 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 1st 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

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**	–
	25,669,241	11,992,956
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
	18,663,864	8,413,335
	$ 44,333,105	$ 20,406,291

(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

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

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 Satelites 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

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
Ml 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 Communicatión 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

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 Sl 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

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 Teleasociadas 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.

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.

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 restitute 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.

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:

	2014	2013
EBITDA (a)		
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
EBITDA	**1,395,017,162**	1,293,171,238
Plus:		
PARAPAT Payment Obligations	**292,452,107**	148,463,768
Adjusted EBITDA (b)	**$ 1,687,469,269**	$ 1,441,635,006
EBITDA margin (c)	**30,07%**	30,78%
Adjusted EBITDA margin (d)	**36,37%**	34,32%

(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.

31. Financial Indicators (continued)

Liquidity Indexes

	2014	2013
a. Current ratios		
Current Assets / Current Liabilities	0.56	0.44
b. Acid test		
Current Assets – Inventories / 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		
Total Liabilities / Total Assets	86%	83%
b. Short-term borrowing		
Current Liabilities / Total Liabilities	31%	37%
c. Hedge Financial expenses		
EBITDA / Financial expenses	3.83v	3.89v
d. Debt over EBITDA		
Net debt / EBITDA	2.72v	2.54v

31. Financial Indicators (continued)

Activity Indexes

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

FINANCIAL STATEMENTS

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

Years ended December 31, 2013 and 2012
with the Statutory Auditor's Report

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

The financial statements of Colombia Telecomunicaciones S.A. E.S.P. for the years ended December 31, 2013 and 2012 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 19, 2013. 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 S.A.S.

Bogotá, D.C., Colombia
April 24, 2014

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

Financial Statements

Years ended December 31, 2013 and 2012

Contents

Statutory Auditor's Report

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

1. I have audited the accompanying financial statements of Colombia Telecomunicaciones S.A. E.S.P., which comprise the balance sheets at December 31, 2013 and 2012 and the related statements of income, 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.

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

3. 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 I plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

4. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements. In making those risk assessments, the auditor considers internal controls relevant to the Company'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 policies 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 opinion.

5. In my opinion, the financial statements present fairly, in all material respects, the financial position of Colombia Telecomunicaciones S.A. E.S.P. at December 31, 2013 and 2012, 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 National Government, consistently applied.

6. Further, based on the scope of my audits, I am not aware of situations indicating that the Company has not: 1) Kept the minutes' books, the shareholders' register and the accounting records in accordance with the legal provisions and the accounting technique; 2) Developed the operations in accordance with the bylaws and the decisions of the General Shareholders' and the Board of Directors' meetings, and the rules related with the Integral Social Security System; 3) Retained the correspondence and the accounting vouchers; and, 4) Adopted internal control measures for the maintenance and custody of the Company's assets and of 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 management.

/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 19, 2014

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

Certification of Legal Representative and Public Accountant

February 19, 2014

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

The undersigned, Legal Representative and Public Accountant certify that the financial statements of Colombia Telecomunicaciones S.A. E.S.P. (hereinafter “the Company”) at December 31, 2013 and 2012 have been taken from the accounting books and before being presented to you and third parties, we have verified the following assertions contained therein:

1. All of the assets and liabilities included in the Company’s financial statements at December 31, 2013 and 2012 actually exist and all of the transactions included in such statements have been performed during the years then ended.

2. All transactions performed by the Company during the years ended December 31, 2013 and 2012, have been recognized in the financial statements.

3. Assets represent probable future economic benefits (rights) and liabilities represent future economic sacrifices (obligations), obtained or owed by the Company at December 31, 2013 and 2012.

4. Every item in the financial statements has been recognized at its appropriate value in accordance with accounting principles generally accepted in Colombia.

5. Every transaction 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. E.S.P.

Balance Sheets

	At December 31	
	2013	**2012**
	(In thousands of Colombian pesos)	
Assets		
Current assets:		
Cash and cash equivalents *(Note 5)*	**$ 135,656,616**	$ 136,373,410
Short-term investments *(Note 6)*	**8,155,995**	20,227,678
Accounts receivable, net *(Note 7)*	**646,161,787**	642,696,828
Inventories, net *(Note 8)*	**79,559,332**	60,484,735
Prepaid expenses *(Note 10)*	**11,192,177**	16,295,896
Total current assets	**880,725,907**	876,078,547
Non-current assets:		
Long-term investments *(Note 6)*	**60,000**	60,000
Long-term accounts receivable, net *(Note 7)*	**1,012,501,525**	981,367,803
Property, plant and equipment, net *(Note 11)*	**3,103,865,254**	3,149,746,248
Intangibles, net *(Note 9)*	**659,408,745**	669,154,215
Deferred charges, net *(Note 10)*	**613,330,397**	708,895,036
Prepaid expenses *(Note 10)*	**3,284,212**	4,036,577
Other assets	**279,511**	4,380,729
Revaluation of assets *(Note 11)*	**221,199,590**	392,706,753
Total non-current assets	**5,613,929,234**	5,910,347,361
Total Assets	**$ 6,494,655,141**	$ 6,786,425,908
Liabilities		
Current liabilities:		
Financial obligations *(Note 12)*	**$ 373,278,104**	$ 59,043,115
Suppliers and accounts payable *(Note 13)*	**1,005,774,756**	1,182,748,542
Taxes, levies and rates *(Note 14)*	**147,291,091**	146,929,353
Labor liabilities *(Note 15)*	**23,716,158**	21,385,394
Estimated liabilities and provisions *(Note 16)*	**380,516,878**	269,227,134
Deferred liabilities *(Note 17)*	**41,156,552**	33,560,290
Other liabilities *(Note 18)*	**32,428,788**	59,927,698
Total current liabilities	**2,004,162,327**	1,772,821,526
Non-current liabilities:		
Financial obligations *(Note 12)*	**1,667,579,283**	1,705,349,965
Taxes, levies and provisions *(Note 14)*	**–**	45,602,694
Estimated liabilities and provisions *(Note 16)*	**8,413,335**	75,044,102
Deferred liabilities *(Note 17)*	**153,152,189**	167,598,369
Other liabilities *(Note 18)*	**85,026,493**	83,515,151
Bonds and securities *(Note 19)*	**1,445,122,500**	1,326,172,500
Total non-current liabilities	**3,359,293,800**	3,403,282,781
Total liabilities	**5,363,456,127**	5,176,104,307
Shareholders' equity *(Note 20) (See accompanying statement)*	**1,131,199,014**	1,610,321,601
Total liabilities and shareholders' equity	**$ 6,494,655,141**	$ 6,786,425,908
Debit memorandum accounts *(Note 21)*	**$ 6,411,077,839**	$ 5,846,867,517
Credit memorandum accounts *(Note 21)*	**$ 11,218,203,283**	$ 11,159,821,908

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

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

Statements of Operations

	Years ended December 31	
	2013	**2012**
	(In thousands of Colombian pesos, except for the net loss per share)	
Operating revenue *(Note 22)*	**$ 4,200,775,123**	$ 3,998,867,817
Cost of sales and services rendered *(Note 23)*	**(1,688,289,633)**	(1,629,637,625)
Gross income before the compensation to Parapat	**2,512,485,490**	2,369,230,192
Compensation to Parapat	**(148,463,768)**	(131,388,560)
Gross income after the compensation to Parapat	**2,364,021,722**	2,237,841,632
Operating expenses:		
Administrative *(Note 24)*	**(366,757,125)**	(361,855,584)
Selling *(Note 24)*	**(641,767,584)**	(589,058,362)
Provisions *(Note 7 and 8)*	**(65,582,830)**	(72,545,448)
Operating income before depreciations and amortizations	**1,289,914,183**	1,214,382,238
Depreciations and amortizations of:		
Property, plant and equipment *(Note 11)*	**(644,552,498)**	(592,786,839)
Intangibles *(Note 9)*	**(287,969,288)**	(284,593,595)
Deferred charges *(Note 10)*	**(284,412,183)**	(258,720,859)
Total depreciations and amortizations	**(1,216,933,969)**	(1,136,101,293)
Operating profit	**72,980,214**	78,280,945
Non-operating (expenses) revenues:		
Financial expenses, net *(Note 26)*	**(332,829,648)**	(370,191,030)
Other non-operating revenues, net *(Note 27)*	**3,257,055**	11,618,586
Total non-operating expenses, net	**(329,572,593)**	(358,572,444)
Loss before income tax	**(256,592,379)**	(280,291,499)
Income tax *(Note 25)*	**(5,420,352)**	(276,606)
Net loss of the year	**$ (262,012,731)**	$ (280,568,105)
Net loss per share	**(180.09)**	(236.68)

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

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

Statement of Changes in Shareholders' Equity

	Subscribed and Paid-in Capital	Additional Paid-in Capital	Legal Reserve	Tax Depreciation Reserve	Equity Revaluation	Accumulated Losses	Net l… t…
					(En miles de pesos)		
Balance at December 31, 2011	$ 909,928,516	$ 435,993,212	$ 60,619,239	$ 26,298,377	$ –	$ (300,818,613)	$ (6
Addition from the merging with Telefónica Móviles Colombia S.A.	1,434,189	3,496,781,769	3,622,141	–	620,706,852	(3,066,913,145)	
Adjustment of the merging	(1,434,189)	1,434,189	–	–	–	–	
Capital increase	544,942,224	(544,942,224)	–	–	–	–	
Movement of the year	–	–	–	–	(45,602,694)	(643,866,890)	(
Net loss of the year	–	–	–	–	–	–	(2
Balance at December 31, 2012	1,454,870,740	3,389,266,946	64,241,380	26,298,377	575,104,158	(4,011,598,648)	(2
Movement for the year	**–**	**–**	**–**	**–**	**(45,602,693)**	**(280,568,105)**	**2**
Net loss of the year	**–**	**–**	**–**	**–**	**–**	**–**	**(2**
Balance at December 31, 2013	**$ 1,454,870,740**	**$ 3,389,266,946**	**$ 64,241,380**	**$ 26,298,377**	**$ 529,501,465**	**$ (4,292,166,753)**	**$ (2**

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

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

Statements of Changes in Financial Position

	Years ended December 31 2013	2012
	(In thousands of Colombian pesos)	
Financial resources provided by (used in):		
Net loss of the year	**$ (262,012,731)**	$ (280,568,105)
Items not affecting working capital:		
Depreciation of property plant and equipment	**644,552,498**	592,786,839
Amortization of deferred charges	**284,412,183**	258,720,859
Amortization of intangibles	**287,969,288**	284,593,595
Other amortizations	**965,225**	–
Depreciation of goods provided in guarantee	**4,101,218**	7,106,217
Loss from write-off property, plant and equipment	**1,986,645**	715,427
Loss from write-off deferred charges and intangible	**875,218**	450,869
Adjustment of related parties from the merging	**–**	63,310
Deferred liability monetary correction	**(3,177,087)**	(3,294,402)
Working capital provided by (used in) the year's operations	**959,672,457**	860,574,609
Financial resources (used in) provided by:		
Increase of long-term financial obligations	**81,179,318**	301,367,871
Increase (decrease) of long-term accounts receivable	**(31,133,720)**	(9,207,258)
Decrease of prepaid expenses	**752,365**	1,450,673
Acquisition of property, plant and equipment	**(625,494,725)**	(657,175,899)
Increase of deferred charges and intangibles	**(489,677,923)**	(83,849,824)
(Decrease) increase of estimated liabilities and Provisions	**(66,630,767)**	66,322,246
Decrease of taxes, levies and rates	**(45,602,694)**	(45,602,694)
Decrease of long-term deferred liabilities	**(11,269,094)**	(9,713,419)
Increase of other long-term liabilities	**1,511,342**	52,043,936
Decrease of goods provided in guarantee	**–**	66,970
Decrease of long-term investments	**–**	20,773
Increase of issuance of bonds and securities	**–**	1,326,172,500
Amortization of equity tax as a decrease of equity revaluation	**–**	(45,602,694)
(Decrease) increase of working capital	**$ (226,693,441)**	$ 1,756,867,790
Changes in working capital components:		
Increase (decrease) of current assets:		
Cash and cash equivalents	**$ (716,794)**	$ (81,394,492)
Investments	**(12,071,683)**	(3,121,022)
Accounts receivable	**3,464,959**	(279,315,345)
Inventories	**19,074,597**	(41,560,515)
Prepaid expenses	**(5,103,719)**	4,973,302
	4,647,360	(400,418,072)

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

Statements of Changes in Financial Position (continued)

	Year ended December 31	
	2013	**2012**
	(Thousands of Colombian pesos)	
Decrease (increase) of current liabilities:		
Financial obligations	**(314,234,989)**	1,480,875,831
Accounts payable	**176,973,786**	470,138,039
Taxes, levies and rates	**(361,738)**	(563,842)
Labor liabilities	**(2,330,764)**	28,455,918
Deferred liabilities	**(7,596,262)**	4,891,507
Estimated liabilities and provisions	**(111,289,744)**	121,662,343
Other liabilities	**27,498,910**	51,826,066
	(231,340,801)	2,157,285,862
(Decrease) increase of working capital	**$ (226,693,441)**	$ 1,756,867,790

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

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

Statements of Cash Flows

	Year ended December 31	
	2013	**2012**
	(In thousands of Colombian pesos)	
Cash flows from operating activities:		
Net loss of the year	**$ (262,012,731)**	$ (280,568,105)
Reconciliation between net loss and net cash provided by operating activities:		
Depreciation of property, plant and equipment	**644,552,498**	592,786,839
Amortization of intangibles	**287,969,288**	284,593,595
Amortization of deferred charges	**284,412,183**	258,720,859
Amortization of deferred liability monetary correction	**(3,177,087)**	(3,294,402)
Other amortizations	**965,225**	–
Provision for doubtful accounts	**67,637,692**	74,432,845
Depreciation of goods provided in guarantee	**4,101,218**	7,106,217
Loss from write-off property, plant and equipment	**1,986,645**	715,427
Loss from write-off deferred charges and intangibles	**875,218**	450,869
Provision for the protection of inventories	**294,539**	183,305
Valuation of derivative instruments	**16,206,331**	(30,745,229)
Adjustment of related parties from the merging	**–**	63,310
Net changes in operating assets and liabilities:		
Accounts receivable	**(73,960,819)**	141,707,429
Inventories	**(19,369,137)**	41,377,210
Prepaid expenses	**5,856,084**	(3,522,629)
Accounts payable	**(176,973,786)**	(356,484,300)
Taxes, levies and rates	**(45,240,955)**	(45,038,852)
Labor liabilities	**2,330,764**	(28,455,918)
Estimated liabilities and provisions	**150,991,180**	(16,662,544)
Deferred liabilities	**12,593,608**	(15,187,946)
Other liabilities	**(27,498,910)**	(51,826,066)
Net cash provided by operating activities	**872,539,048**	570,351,914
Cash flows from investment activities:		
Decrease of investments	**12,071,683**	3,141,795
Acquisition of property, plant and equipment	**(625,494,725)**	(657,175,899)
Additions of deferred charges and intangibles	**(505,944,364)**	(153,795,230)
Net cash used in investment activities	**(1,119,367,406)**	(807,829,334)
Cash flows from financing activities:		
Increase (decrease) of financial obligations	**244,600,222**	(1,179,507,960)
Issuance of bonds and securities	**–**	1,326,172,500
Increase of other long-term liabilities	**1,511,342**	8,835,368
Increase of long-term deferred liabilities	**–**	583,020
Net cash provided by financing activities	**246,111,564**	156,082,928
Net decrease of cash and cash equivalents	**(716,794)**	(81,394,492)
Cash and cash equivalents provided by the incorporation of Telefónica Móviles Colombia S.A. (absorbed entity)	**–**	142,733,562
Cash and cash equivalents at beginning of year	**136,373,410**	75,034,340
Cash and cash equivalents at end of year	**$ 135,656,616**	$ 136,373,410

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

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

Notes to the Financial Statements

At December 31, 2013 and 2012
(Amounts expressed in thousands of Colombian pesos, except for amounts in foreign currency, exchange rates, and par value of the share)

1. Reporting Entity

Colombia Telecomunicaciones S.A. E.S.P. ("the Company") is a public service company organized as a stock Company through Public Deed No. 1331 of June 16, 2003 and has a life-term up to December 31, 2092. The Company is currently subject to the regime set-forth by Law 1341 of 2009 and other applicable standards, catalogued as a Public Utility Service Company (E.S.P., 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, tele services, 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, supply and/or generate content and application services, information services and any other activity, product or services qualified as of telecommunications, and/or of information and communication technologies (TIC, its Spanish Acronym) such as, resources, tools, equipment, IT programs, applications, networks and media, which allow the compilation, processing, storage, information transmission as voice, data, text, video and images, including its communications and information activities, including the complementary and supplementary activities in the national territory and abroad and with foreign connection, for such purpose using goods, assets and rights or applying the use of third parties' goods, assets and rights. Likewise, the Company may perform commercial activities defined in its bylaws.

Telefónica Internacional S.A.U. Capitalization

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

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

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

1. Reporting Entity (continued)

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

As a result of the capitalization and subsequent subscription of shares by Telefónica Internacional S.A.U., there were changes in the legal regime applicable to Colombia Telecomunicaciones S.A. E.S.P. The Company, from a legal viewpoint ceased being an official public utility entity (a decentralized national entity), to be converted into a private utility company since its majority capital continues in the hands of third parties, incorporated as a public utility company as set-forth by Law 142 of 1994 and Law 1341 of 2009 and other standards.

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

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

1. On March 28, 2012, the General Shareholders' Meetings of Colombia Telecomunicaciones S.A. E.S.P. and Telefónica Móviles Colombia S.A. (absorbed company), approved the following:

   a. The Compensation Installments of the Exploitation Contract will be assumed by the Nation through the Ministerio de Hacienda y Crédito Público (Ministry of Finance and Public Credit) (in 47.9665396%) and the largest Shareholder of Colombia Telecomunicaciones S.A. E.S.P., through Telefónica Móviles Colombia S.A. (in 52.0334604%). The largest Shareholder of Colombia Telecomunicaciones, Telefónica Internacional S.A.U., may incur in the capitalization or assumption of the payment of the Exploitation Contract, directly or through the Parent Company of any of the subordinates of Telefónica Internacional S.A.U. or of any of the subordinate companies of the Telefónica Internacional S.A.U. Parent Company. In this way it has determined that Telefónica Móviles Colombia S.A. subscribes an agreement to the Exploitation Contract that will involve that such company substitutes itself in the payment obligations in change of Colombia Telecomunicaciones S.A. E.S.P. corresponding to the Compensation Installments deriving from the Exploitation Contract.

   b. A Payment Agreement regarding the Compensation Installments that have past due payments at the date of the assumption of the payment obligations and the late payment interests accrued. These installments will be paid by Colombia Telecomunicaciones S.A. E.S.P.

   c. Additionally, as part of the strengthening mechanism to reinforce the agreed equity, the obligations assumed by the Nation and by Telefónica Móviles Colombia S.A. could be restructured, provided that the present value thereof is maintained; for this purpose, they should be discounted at the rate of the effective actual annual technical interest of four per cent (4%). This restructuring consists of modifying the payment term and the form of payment of the compensation installments.

   d. This equity reinforcement process was subject to the improvement of the merging between Colombia Telecomunicaciones S.A. E.S.P. and Telefónica Móviles Colombia S.A.; where Colombia Telecomunicaciones S.A. E.S.P. would be the absorbing Company, in accordance with the conditions determined under the parameters established in the CONPES document No. 3721.

1. Reporting Entity (continued)

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

2. Under the framework of the shareholders' agreement, and considering the instruction provided by the General Shareholders' Meeting No. 42 held on March 28, 2012, the Company's Board of Directors' in its meeting No. 80 of March 29, 2012 adopted the terms included in the Merging Commitment and its annexes to be presented and approved by the General Shareholders' Meeting.

3. Before the Payment Agreement between Colombia Telecomunicaciones S.A. E.S.P. and the PARAPAT, and Amended No. 3 to the Exploitation Contract, the General Shareholders' Meeting held on March 30, 2012 approved to include certain modifications in these documents as set forth below:

    a. The maximum rate of late payment interest legally permitted will be recognized in the Payment Agreement to be subscribed on the outstanding installments accrued during 2011 and the first bimonthly period of 2012, which payment would be made in two installments, one in September 2012 and the other in March 2013. In consideration, the references anticipating that the difference regarding the late payment interest rate would be subject to the decision of the arbitration court are eliminated from the Payment Agreement.

    b. An expectation was included in Amendment No. 3 of the Exploitation Contract in order that the parties solve directly in an amicable manner and within a period of ninety (90) days the matters pending regarding the definition of the destination or use of the real estate which is the object of the Exploitation Contract; and this does not occur, they will be solved going through the instances established in the contract to settle controversies. The above considering that the Colombian General Controller's Office, in its audits of Colombia Telecomunicaciones S.A. E.S.P., has challenged the way of managing such aspects.

4. On March 30, 2012 , all the documents structuring the strengthening of Colombia Telecomunicaciones S.A. E.S.P.: i) Payment agreement; ii) Amendment No. 3 to the Exploitation Contract, iii) Restructuring Agreement of the payment of Compensation Installments and, iv) Amendment No. 1 to the Investment Master Agreement.

5. The payment to PARAPAT ($266,000,000) was made on March 30, 2012 and the last pending quote was made on March 27, 2013 to PARAPAT ($131,388,560) completely complying with Payment Agreement signed between Colombia Telecomunicaciones S.A. E.S.P. and PARAPAT.

6. Company merging with Telefónica Móviles Colombia S.A.

    a. The General Shareholders' Meetings of Colombia Telecomunicaciones S.A. E.S.P. and Telefónica Móviles Colombia S.A., were held on April 24, 2012, in compliance with the legal and statutory formalities that approved the merging and the content of the Merging Commitment whereby Colombia Telecomunicaciones S.A. E.S.P. absorbed Telefónica Móviles Colombia S.A.

1. Reporting Entity (continued)

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

b. In communications of May 2, 2012, the Superintendencia de Industria y Comercio (Colombian Antitrust Authority – SIC), issued a statement regarding the request for authorization of Colombia Telecomunicaciones S.A. E.S.P. and Telefónica Móviles Colombia S.A., stating that this merging did not constitute an integration that lead to an undue restriction of the competence.

c. Since the entities participating in the merging are supervised by the Superintendencia de Sociedades (Colombian Superintendecy of Companies) and the Superintendencia Financiera de Colombia (Colombian Superintendency of Finance - SFC), on May 11, 2012 the companies submitted to these authorities the request for authorization to solemnize the Merging Commitment approved by the General Shareholders' Meetings. In accordance with the foregoing, both superintendences approved this request by means of Resolutions No. 300-003498 of June 21, 2012 and 0931 of June 22, 2012 of the Superintendency of Companies and the SFC, respectively.

d. The merging by absorption of Telefónica Móviles Colombia S.A. by Colombia Telecomunicaciones SA E.S.P. was formalized through Public Deed No. 1751 dated June 29, 2012 of the 69th Notary's office the Public Notaries Circle of Bogotá.

e. The merging was formalized by means of Public Deed No. 1751 of June 29, 2012, registered under No. 01648010 on July 6, 2012 with the Commercial Register of the Chamber of Commerce of Bogotá D.C.

7. Colombia Telecomunicaciones S.A. E.S.P. accounting records at December 31, 2012 incorporated the financial statements of Telefónica Móviles Colombia S.A. ("TMC"). For purposes of the preparation of the statements of changes in equity, changes in financial position and cash flows, the initial balances of TMC at January 1, 2012 were incorporated. Considering that the merging companies had no reciprocal participations, the merging adjustments and eliminations corresponded to the balances receivable and payable between both companies and to the elimination of the operations carried out between them during the year.

8. Likewise, the Company's management prepared the statement of income at December 31, 2012 absorbing the year results of TMC's operations. Below are the main figures of the balance sheet and statement of income of the absorbed entity:

	At January 1, 2012
Total assets	$ 4,216,314,292
Total liabilities	2,654,203,609
Equity, net	1,562,110,683
Working capital	(1,233,359,855)

2. Operations

Exploitation Contract of Goods, Assets and Rights

On August 13, 2003, Colombia Telecomunicaciones S.A. E.S.P and Empresa Nacional de Telecomunicaciones – Telecom in Liquidation and Teleasociadas in Liquidation, signed an Exploitation Contract of Goods, Assets and Rights. This contract assumes the universal tenancy of all goods and assets related with provision of telecommunication services and their commercial exploitation by Colombia Telecomunicaciones .S.A. E.S.P., in exchange of a compensation.

The autonomous equity of Assets and Liabilities of Telecom (PARAPAT) in charge of Fiduagraria S.A., was created upon the liquidation of Empresa Nacional de Telecomunicaciones and its tele-associates, administrates the Exploitation Contract of the assets used by Colombia Telecomunicaciones S.A. E.S.P. and, therefore, is the party that receives the resources resulting from the Exploitation Contract.

Likewise, this autonomous equity transfers the resources to two trustees; the first one to the Autonomous Equity of Remnants (PAR), in charge of a consortium comprised by Fiduagraria S.A. and Fidupopular S.A., for handling of affect goods – real estate, vehicles and others that have not yet been sold, accounts receivable, legal processes and files' management, and the second, the Autonomous Equity of Pensions (PAP), managed by a consortium comprised by Fiduprevisora S.A. and Fiducolombia S.A.

The Exploitation Contract has the greatest effect on the Company's financial statements; it is by means of which the payment of the compensation to the Extinct Empresa Nacional de Telecomunicaciones and remaining Teleasociadas (currently, autonomous equity PARAPAT) is made for the use and enjoyment of goods, assets and rights, the object of the Exploitation Contract and that were identified at the time the contract determined them as affects/ related to the rendering of services by Colombia Telecomunicaciones S.A ESP. The Company recorded the commitment as of May 1, 2006, as a compensation for the sales cost and service rendering, taking into account the provisions of Resolution of SSPD No. 33635 of December 28, 2005.

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

a) On December 1, 2004, the Exploitation Contract of goods, assets and rights was amended to incorporate Telesantamarta in Liquidation to the exploitation contract, in accordance with the existence of a new party to it and the establishment of a new term to identify the goods affected to the continuity in the provision of the service by Colombia Telecomunicaciones S.A. E.S.P.

b) Amendment number 2 to the Exploitation Contract of goods, assets and rights was signed on April 21, 2006. In this amendment, among others, a modification was established in the form of a payment of the aforementioned service, 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 IPC certified by the DANE for the calendar year prior to the accrual date, plus 4 percent points, all calculated in a combined form.

2. Operations (continued)

Exploitation Contract of Goods, Assets and Rights (continued)

c) Amendment No. 3 to the Exploitation Contract was signed on 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%) of the payment of obligations not yet due in charge of the Company, deriving from the application of Clause 14 of the Exploitation Contract. The principal conditions of Amendment No. 3 to the Exploitation Contract are as follows:

I. Upon the assumption of the payment obligations by the Nation through the Ministry of Finance and Public Credit, and Telefónica Móviles Colombia S.A. (absorbed company), PARAPAT releases Colombia Telecomunicaciones S.A. E.S.P. from its payment obligations in favor of PARAPAT corresponding to the Compensation installments that are to be paid after signing Amendment No. 3.

II. The substitution of the payment obligations assumed by the Nation and Telefónica Móviles Colombia S.A. (absorbed entity), does not include in any case paying the obligation of any due installment before the signature date of Amendment No. 3, or of the assumption of interests incurred or accrued upon the incompliance of the payment of such installments.

III. The rights granted by the Exploitation Contract to Colombia Telecomunicaciones S.A. E.S.P., as well as the obligations not specifically assumed in Amendment No. 3, will remain in the name of the Company and, therefore, the right the Company has in respect to the use and enjoyment of the goods object of the Exploitation Contract.

d) On March 30, 2012, Telefónica Móviles Colombia S.A. (absorbed entity) and PARAPAT signed the Restructuring Agreement of the Compensation Installments of the obligations assumed through Addendum No. 3 of the Exploitation Contract, in order to change the amount and the payment term of the Compensation installments. Colombia Telecomunicaciones S.A. E.S.P. appeared for the subscription of the Restructuring Agreement, given that after the merging occured, Colombia Telecomunicaciones S.A. E.S.P., as the absorbing company of Telefónica Móviles Colombia S.A. assumes the payment obligation which is the object of the Restructuring Agreement.

The following details the main conditions of the Restructuring agreement:

I. The restructuring agreement provides for the compensation value as of the second bimonthly period of 2012 to the termination of the Exploitation Contract in 2028.

II. The Compensation Installments established in Clause 14 of the Exploitation Contract, assumed by Telefónica Móviles Colombia S.A. pursuant to the Amendment No. 3, will be paid in bimonthly installments from 2013 to 2028.

III. The Compensation Installment that accrues in 2013 will be a value equivalent to COP$139,353,400 in Colombian pesos for 2012, adjusted for the variance of the General Consumer's Price Index – IPC. This variance is certified by the DANE for 2012, plus four percent (4%), all of the above calculated in a compound manner.

2. Operations (continued)

Exploitation Contract of Goods, Assets and Rights (continued)

The Compensation Installment accrued in 2014, will be an equivalent of COP$258.924.935 Colombian pesos in 2012, adjusted by the variance of the General Consumer's Price Index – IPC, a variance certified by the DANE for 2012 and 2013, plus four percent (4%) for every two years between 2012 and 2014, all calculations will be compound.

IV. The Compensation Installments accrued from 2015 to 2028, will be for an amount equal to that established for each year, according to the Payments Profile determined in the Restructuring Agreement of the Compound Growth of EBITDA from 2011 to 2014, which will correspond to the annual compound growth rate recorded from 2011 to 2014, as follows: (EBITDA 2014 / EBITDA 2011)^1/3-1, expressed in percentage terms. The Compensation Installments of the payment profiles from 2015 to 2028 will be updated on an annual basis based on the Consumer's Price Index – IPC certified by DANE, from December 31, 2011 and December 31 of the calendar year immediately prior to the respective accrual, plus four percent (4%) for every year as of 2012.

V. The compensation installment for 2013 is of $148,463,768 (2012 - $131,388,560) that was paid in terms and conditions established in the Exploitation Contract and the Restructuring Agreement signed with PARAPAT.

Authorities of the Sector

The sector authorities are those related with the 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); ii) Comisión de Regulación de Comunicaciones – (Colombian Telecommunications Commission – CRC) iii) Agencia Nacional del Espectro – (Colombian National Spectrum Agency- ANE); and iv) Autoridad Nacional de Televisión – (National Televisión Authority – ANTV) and the SIC.

Information Technology and Communications Sector Regime

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

Article 10 of Law 1341 of 2009 establishes the new general qualification regime for the provision of telecommunication networks and services; such qualification is understood to be formally provided when the interested party is registered with the ICT, provided for by Article 15 of the same Law. Likewise, this article maintains its public service condition, for telecommunication services, in charge of the State.

2. Operations (continued)

Information Technology and Communications Sector Regime (continued)

According to Article 11 of the stated Law, the use of the spectrum requires the previous express permission granted by the MINTIC. Likewise, according to Article 13, the granting of permits or the renewal to use a segment of the radio-electric spectrum will give rise to the payment, in favor of the Fondo de Tecnologías de la Información y las Comunicaciones - (Information and Communications Technology Fund - FTIC) - in charge of the permit holder, of a compensation which amount will be set by means of Resolution 290 of 2010 issued by the MINTIC.

Article 68 of Law 1341 establishes the transition regime for companies established when the Law was issued, stating that it will respect the qualifying titles (concessions, licenses, permits, authorizations) up to the term and under the conditions established in the regime. Additionally, it establishes that these operators may accept the overall qualifying regime, which will allow them to renew only once the permits to use the spectrum, thus subsequently allowing the use of the overall general permit renewal.

Law 142 of 1994 will not be applicable to telecommunications and companies which provide basic commuted public telephony services, local mobile telephony in the rural sector, and long distance, in respect to these services, except in the case of these companies, the provisions established in article 4 on the essential character, Art. 17 on the companies' legal nature, Art. 24 on the tax regime and the third title, Articles 41, 42 and 43 on the labor regime, guaranteeing the association and collective negotiation rights and the employees' labor rights. Anyway, the legal nature of the companies rendering basic commuted public telephony services, local mobile telephony in the rural sector will be respected as public service companies (E.S.P., its Spanish Acronym).

Qualifications to Render Telecommunication Services by Colombia Telecomunicaciones S.A. E.S.P.

As of November 8, 2011 the Company is qualified in a general manner to use telecommunication networks and services. Regarding the rendering of Mobile Telephony 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 TIC, which was approved on December 17, 2013 according to an e-mail received from the MINTIC; date as of which the new regime of general qualification is applied and the right to renew the permits is generated under the terms of its qualification title, permits and authorization until March 28, 2014 and once that term expires for 10 additional years For such purpose, the MINTIC will issue an administrative writ as stated in decree 2044 of 2013, regulated by Law 1341 of 2009 Article 68, remaining pending the definition of the economic conditions and additional applicable obligations.

At this time, it is known that the Constitutional Court declared conditionally enforceable Articles 4 of Law 422 of 1998 and 68 of Law 1341of 2009 regarding the reversal of assets through Sentence C-555 of 2013, understanding that the concession contracts subscribed before the enforcement of these standards, the contents of the reversal clauses agreed therein should be respected, granting full validity to clause 33 of "reversal" (Thirty Third Clause – Reversal. At the end of the concession term, the elements and assets directly affected become the property of the Nation – MINTIC, without this requiring any compensation…) included in the concession contract signed in 1994 and extended in 2004.

2. Operations (continued)

Qualifications to Render Telecommunication Services by Colombia Telecomunicaciones S.A. E.S.P. (continued)

The complete sentence C-555 at the date of these financial statements has not been published, therefore, it has not been possible to determine the type of assets and periods subject to the reversal, as well as the possible economic impacts on future obligations deriving from the described matter. In regard to this topic, Decree 2044 of 2013, which stipulates the rules applicable to the permits renewal procedures, indicated in Article 6 that when the complete text of Sentence C-555 of 2013 of the Honorable Constitutional Court is known, the MINTIC will then establish the liquidation criteria of the respective contracts.

In respect to this reversal situation until the date of the pronouncement of the Constitutional Court, the Company and the State had been acting in the compensation relationship under the understanding that the reversal would only be applicable on the committed scarce resource which is the radio electric spectrum based on the issuance of two laws of the Republic that determined the situation pointed out (L. 422 of 1998 and 1341 of 2009).

As established in Article 68 of Law 1341 and in Decree 2044 of 2013, on November 28, 2013, the Company accepted the General Qualification Regime for the services that have been rendered under the heading of concession contracts subscribed in 1994 and their amendment agreements that allow the use the spectrum corresponding to 25Mhz in the 850 band and 15 MHz in the 1900 band, with which there will be a renewal for 10 for the use such spectrum under the terms of Law 1341 and Decree 2044 of 2013. Currently, the renewal value of the permit to use the spectrum of 850 and 1900 is under a definition process by the MINTIC.

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

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

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

Biannual Plans

The Company administrates resources deriving from the FTIC (Special Administrative Unit registered with 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.

2. Operations (continued)

Biannual Plans (continued)

The FTIC sets the criteria to develop these plans in accordance with regulations set in CONPES 3171.

a) III Biannual Plan

In 2010, the Company signed a new agreement with the National Government, known as the III Biannual Plan, which purpose is to develop the transport infrastructure required to render fixed broadband services in stratum 1, 2 and in Pymes (its Spanish acronym) which are small and medium companies) 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 term is of 24 months counted as of July 2010, when the engineering plan was approved. An extension until May 2014 was approved in November 2013.

The resources of the III Biannual Plan are managed through the Trust and recorded as intangibles in the trust rights account with a balance of $28,615,431 (Note 9), the Trust balance at December 31, 2013 is of $27,615,330. The balancing entry of the trust right is found in the account other liabilities – deposits received from third parties (Note 18). The closing accounting balance of this project of 2013 amounts to $25,809,138, where there is greater execution in respect to the payments made by the Trust.

b) II Biannual Plan

According to the Fifth Numeral of the Liquidation Minute of the Second Biannual Plan Agreement, Colombia Telecomunicaciones S.A. E.S.P. following the instructions of the FTIC, transferred the resources on December 23, 2012, for the project's balance and the yields generated on the deposit date discounting the financial expenses resulting from the transfer of $20,922,525. The income's amortization ended at the closing of 2013.

Compartel Project

The Company manages the resources from the FTIC received from FONADE for the development of the Compartel replacement and expansion project of networks appropriate for the broadband. At the closing of December 2011 the Company was awarded resources to promote the development of the Compartel project to expand access of stratum 1 and 2 to the broadband on fixed networks of $1,502,000, which will be disbursed through the autonomous equity.

These received funds are recorded in the account Rights in Trust (*Note 9*) account and its balancing entry is recorded in the account other liabilities – deposits received *(Note 18)*. The Trust balance of this Project at the closing of 2013 is of $76,712 (2012 - $205,497).

2. Operations (continued)

Fundación Telefónica Colombia

In April 2007, Fundación Telefónica Colombia was incorporated as a non-profit entity governed by the private regime under Colombian laws. The Fundación will be guided by the directives and philosophical statements that regulate the Fundación Telefónica Internacional. The initial contribution to the Fundación by Colombia Telecomunicaciones S.A. E.S.P. was of $30,000. With the merging by absorption by Telefonica Móviles Colombia S.A. the contributions amount to $60,000 at the close of 2012. During 2013 and 2012 there were no contributions made by the Company to the Fundación.

Interconnection

According to Law 1341 of 2009, network suppliers are committed and have the right of access and use of the telecommunication network. The current interconnection regime is in Resolution 3101 of 2011 of the Communications Regulations Commissions. The Company has signed interconnection contracts with other suppliers that would allow communication to its network with users of other networks. Regarding the rate scheme of access charges between telecommunication operators, the Resolution 1763 of December 5, 2007, amended by resolutions 3136 and 3500 of 2011 is applicable.

By means of the Resolution of the Communications Regulation Commission 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 in 2011 to $42.49 the minute in 2015 , except for the case of interconnection with the dominant supplier of outgoing voice Móvil 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 during 2012 should 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.

3. Presentation Basis and Accounting Policies and Practices

Comparative Financial Statements

The financial statements at December 31, 2012 were affected by the merging whereby Colombia Telecomunicaciones S.A. E.S.P. absorbed Telefónica Móviles Colombia S.A. Based on the above, certain figures of the financial statements at December 31, 2012 were reclassified with presentation purposes of with balances at December 31, 2013. No changes were made in the Company's accounting practices for the 2013 financial statements that could affect the final results for the year.

Presentation Basis

The enclosed financial statements reflect Colombia Telecomunicaciones S.A. E.S.P.'s financial position and were prepared in accordance to accounting principles generally accepted in Colombia as stated in Regulatory Decree 2649 of 1993 and other legal standards and resolutions issued by the Superintendency of Companies; these principles 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 implemented by the Company in accordance with the above.

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

Currency

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

Inflation Adjustments

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

Materiality Concept

An economic fact is material when due to its nature or amount and taking into account the 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 FTIC and Fonade for the handling of the III Biannual Plans and the Compartel Project intended for projects for the expansion, replacement and maintenance of the current infrastructure operated by the Company in compliance with social programs established by the National Government.

Cash and Cash Equivalents

They represent resources in cash and banks and highly liquid short-term investments, maturing within three months of 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 the exposure to fluctuations of interest rates and exchange rates of its rights and obligations with third parties.

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

Financial Derivative Instruments (continued)

Although the Colombian Accounting Standards for the manufacturing sector do not foresee a specific 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 in order to maintain results according to market prices, presenting reasonable figures and adjusted to the economic reality. The Company does not develop hedge operations with speculative purposes.

The Company has as corporate policy covering all exchange rate risk; consequently at the close of December 31, 2013, the valuation of financial hedges correspond to the Non Delivery Forward (NDF) and Cross Currency Interest Rate Swap (CCIRS) 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 with the hedge, and, ii) the exchange rate component defined as a valuation generated by the difference between the exchange rate of the hedge and the exchange rate at the end of the month multiplied by the par value of the hedge. These two values are recorded separately in the statement of income as a financial expense and an income or expense from the exchange difference, respectively. Likewise, the difference between amounts paid and income received under hedge operations are recognized as debt financial expense.

Short–Term and Long–Term Investments

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

a) Investments representing the local or foreign currency, in securities or financial documents, which yield is predetermined in accordance with contractual conditions, are classified as fixed yield investments. Those investments that represent the invested amount, in local or foreign currency, in securities which yield is determined based on the participation in profits of the issuer entity or the autonomous equity are classified as variable yield investments.

b) Investments are initially recorded at cost and are monthly adjusted at their market value and charged or credited to the statement of income.

c) Investments of variable rate liquidity management correspond to investments of collective portfolios at sight of Investment Funds and investment savings accounts that are presented at their market value and are valued by means of the accrual of yields.

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

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

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

Translation of Foreign Currency Transactions and Balances

Foreign currency transactions are entered according to legal regulations in force and are recorded at the applicable exchange rates in effect on the transaction date. Balances denominated in foreign currency are reflected in Colombian pesos at the representative market exchange rates of $1,926.83 and $1,768.23 per US$1 at December 31, 2013 and 2012, respectively. In regard to accounts receivable, exchange differences are charged to the statement of income. In regard to accounts payable, only exchange differences not imputable to assets' costs of acquisition are charged to the statement of income.

Accounts Receivable

Accounts receivable are recorded at cost. The provision for doubtful accounts which includes late-payment interest, financing and interest is reviewed and updated at each year-end based on the risk analysis, the aging of balances and recoverability evaluations made by Management of the individual accounts and by each category. Unrecoverable amounts are regularly reviewed and written-off. Periodically, the Company determines the provision for doubtful accounts receivable based on the risk of recoverability as follows:

- Residential and business accounts receivable with a maturity greater than 105 days are provisioned in 100%.
- Company accounts receivable with a maturity greater than 120 days are completely (100%) provisioned, and those entities that have a payment agreement signed are excluded; if they do not make one payment, no matter what time they have, the accounts receivable balance will be completely provisioned.
- For the financing of sales to clients 100% of the accounts receivable.
- Accounts receivable from commercialization channels: *i)* Commercial, retail, recharging agents, card distributors and mixed channel with a maturity greater than 90 days – 100%; *ii)* Chain stores with a maturity greater than 150 days – 100%.
- Domestic interconnection accounts receivable: *i)* A complete (100%) provision is applied for interconnection minutes with domestic operators that have accounts receivable greater than 60 days. *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 month's 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 greater than 180 days will be completely (100%) provisioned.
- Roaming accounts receivable are individually analyzed by operator, in order to quantify the risk and if necessary this will include the calculation of the period's provision.
- Official Accounts Receivable: *i)* mobile business will be completely (100%) provisioned for accounts receivable greater than 6 months, *ii)* for the fixed business will be completely (100%) provisioned for accounts receivable greater than 24 months.
- Accounts receivable related with other debtors will be completely (100%) provisioned for accounts receivable greater than 90 days.
- Sale of equipment – IT PDTI workstation will be completely (100%) provisioned for pending quotes pending invoice greater than 90 days.

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

Inventories

The Company records at cost, as inventories, 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 Telephony

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 Empresa Nacional de Telecomunicaciones had on the date Colombia Telecomunicaciones S.A. E.S.P. 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 for by Article 10 of Law 1341 of 2009, modifying its condition in the TIC register, with which the Company is enabled to render all types of telecommunication services, without any restriction, except for the use of the spectrum which is subject to the permits regime.

b) Mobile Telephony

Concession rights of the mobile telephony of the Eastern, Atlantic Coast and Western regions are recorded at acquisition cost including the exchange difference resulting from the adjustment of the loan in foreign currency, secured for the acquisition up to the date the Company initiated its operative stage.

Up to 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. Up to January 1997, the initial rights were amortized within a period of nine years and nine months. On January 31, 1997 the Company was granted an extension of 10 years for its original concession, thus, as of February 1, 1997, the net balance of the initial concession rights at January 31, 1997 and the additional extension cost were amortized within a period of 17 years and 2 months.

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

Intangibles (continued)

(1) Rights

a. Use of the Radio-electric Spectrum – Mobile Telephony

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, (today Colombia Telecomunicaciones S.A. E.S.P.) and for a period of 10 years as of October 2011. The value of the concession is of $95,543,000.

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

During 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 Resolution 2625 of 2013, confirmed through Resolution 4142 of October 25, 2013. The permit has a 10 year life-term. The concession value, including the obligations to do amounted to $268,997,210.

b. Interconnection

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

c. Acquired Goodwill

The Goodwill acquired is recorded as an intangible within the Company's assets, which according to regulations in force, should be amortized for a period of 10 years.

However, understanding that the Company's financial statements should reflect the actual value of its assets, a study of the financial evolution of the asset which gave rise to the registration of the goodwill acquired, should be made annually in order to establish that the investment made will generate future benefits and that the present net value be adjusted to the goodwill carrying value acquired at a specific time, so that if the net present value of the future benefits is lower than the carrying value of the intangible asset, its amortization be made in accordance with this indicator, irrespective of the maximum term defined by Law.

According to Joint Circular 100–000006 of 2005 of the Superintendency of Companies and to External Circular 011 of 2005 of the Securities Superintendency (now Superintendency of Finance), goodwill acquired may be amortized over a maximum period of 20 years.

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

Intangibles (continued)

The useful life of the goodwill was extended to March 2014, in order to associate to a better extent the amortization thereof, with the Company's results, considering the concession term of the mobile telephony with MINTIC Comunicaciones awarded at such time and its direct relation with the generation of these results.

In order to comply with accounting and legal standards in force, the Company contracted in December 2013 a specialized Company, Valor y Estrategía S.A., a company specialized in banking investment services, to establish the equity value of the recorded acquired Goodwill and its result did not generate any impact on the financial statements.

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 a condition of use. Depreciation is computed by using the straight-line method based on the useful life of assets on100% 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:

	Years	%
Buildings (1)	20 – 40	5 – 3
Networks, lines and cables – Fixed operation	10 – 20	10 – 5
Mobile network – Mobile operation (3)	8 – 15	13 – 7
Basic telephones	5	20
Exterior plant construction	15	7
Machinery and equipment	10	10
Furniture, fixtures and office equipment	10	10
Communication equipment (2)	10	10
Transport and lifting equipment	5	20
Computer equipment	5	20

(1) Includes, among others, civil infrastructure works of telecommunication towers and cabins.
(2) Includes, among others, transmission equipment, force and performance equipment, as well as modems and decoders, the latter are depreciated between 3 and 1.5 years, respectively.
(3) Includes, among others, network nodes and mobile access equipment, commuter centrals and transmission equipment.

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

Deferred Charges

Deferred charges mainly include:

1. 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 Multipoint distribution systems to access wireless Broadband by each service area, either municipal, department or national, as set-forth in Decree 1972 of July 2003.

2. 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.

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

Deferred Charges (continued)

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 Guarantee

The Company records equipment delivered to clients under Guarantee 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 Superintendency of Companies, which determines the minimum general regulations for the preparation of technical appraisals.

The appraisals of machinery and equipment were updated by ONASI Ltda., using 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 that 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 correspond to obligations entered into by the Company with credit institutions or other financial entities of the country or abroad, including also 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.

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

Income Tax

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

Labor Liabilities

Labor liabilities are adjusted at the end of the period based on legal regulations in force. The balance includes the consolidation of fringe benefits and employees' fringe benefits. 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 private funds or to the Social Security Institute which fully assume these obligations.

Recognition of Revenues

a) *Operating Revenues – Fixed Operation*

Operating revenues mainly derive from the rendering of local telephony, 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; it is considered for these estimates the cut-off of each cycles invoicing by client. 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 payment arises.

b) *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.

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 the 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.

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

Recognition of Revenues (continued)

b) *Operating Revenues – Mobile Operation*

Unbilled revenues for the use of time on air result from the services rendered as of the billing date cycle at the end of each month, 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. Income from the interconnection resulting from the fixed-mobile, mobile – fixed and mobile-mobile services, as well as for other services used by the clients are recognized in the period when 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 from the reduction of rates; according to the negotiations with the operators for traffic compliance, once traffic is reconciled the actual rates are recognized and the estimates are adjusted.

Income and Costs from Access Charges

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

Costs of Sales and Rendered Services

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

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

Memorandum Accounts

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

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

Net loss per Share

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

Contingencies

At the date of issuing the financial statements may have conditions, situations or circumstances that imply a doubt regarding a possible earning or loss by the Company, doubt that will be solved in the last case when one or more future events occur or not. Such situations are evaluated by Management and legal counsel as to their nature, the probability that they materialize and the amounts involved deciding on the changes of the amounts accrued and/or disclosed.

Contingencies of losses estimated as eventual or remote are generally recognized in the memorandum accounts.

Statement of Cash Flows

The statements of cash flows were prepared by using the indirect method, which includes the reconciliation of the net loss for the year with the net cash provided from operating activities. Money in cash and banks, savings deposits and all highly liquid investments with a maturity of 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 provisions and estimates that affect the amounts of assets and liabilities reported and contingent assets and liabilities at the date of the financial statements. Although they may differ from their final effect, Management considers that the estimates and assumptions used were adequate under the circumstances.

According to Law 1314 of 2009 and the Regulatory Decree 2706 and 2784 of December 2012, the Company is required to initiate the convergence process of the accounting principles generally accepted in Colombia to the International Financial Reporting Standards (IFRS) as issued by the IASB (International Accounting Standards Board).

Considering the above, 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 begins on January 1, 2014 and the issuance of the first comparative financial statements under IFRS will be as of December 31, 2015. Regarding the convergence the Company has reported the information at the date requested by the Superintendency of Companies.

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 US Dollars 2013	In US Dollars 2012	In thousands of Colombian Pesos 2013	In thousands of Colombian Pesos 2012
Assets:				
Cash and cash equivalents	**$ 4,247,911**	$ 2,405,931	**$ 8,185,003**	$ 4,254,239
Foreign debtors	**26,336,876**	37,612,077	**50,746,683**	66,506,803
Shareholders, related parties and associated companies	**19,624,238**	12,425,020	**37,812,571**	21,970,293
Total assets	**50,209,025**	52,443,028	**96,744,257**	92,731,335
Liabilities:				
Financial obligations	**287,890,838**	200,908,478	**554,716,704**	355,252,398
Suppliers and accounts payable	**245,968,954**	145,204,236	**473,940,359**	256,754,487
Shareholders, related parties and associated companies	**39,677,060**	46,006,195	**76,450,950**	81,349,535
Estimated liabilities and provisions	**23,455,559**	36,228,621	**45,194,874**	64,060,535
Bonds and commercial papers	**750,000,000**	750,000,000	**1,445,122,500**	1,326,172,500
Total liabilities	**1,346,992,411**	1,178,347,530	**2,595,425,387**	2,083,589,455
Liability position, net	**$ (1,296,783,386)**	$ (1,125,904,502)	**$ (2,498,681,130)**	$ (1,990,858,120)

5. Cash and Cash Equivalents

Cash and cash equivalents at December 31 were comprised by:

	2013	2012
Cash	**$ 2,209,568**	$ 1,834,080
Banks in local currency	**125,142,575**	130,147,529
Banks in foreign currency	**8,185,003**	4,254,239
Special funds	**119,470**	137,562
	$ 135,656,616	$ 136,373,410

6. Investments

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

	2013	2012
Short-term:		
Investment funds (1)	**$ 8,155,995**	$ 20,227,678
Long-term:		
Non-controlled equity investments (2)	**60,000**	60,000
	$ 8,215,995	$ 20,287,678

(1) Correspond to funds of funds of collective account receivable which rates range between 1.86% and 3.09%.
(2) Includes the contribution amount provided by the Company to the Fundación Telefónica.

6. Investments (continued)

Every investment made during 2013 complies with the obligations acquired by the Company with Bond holders and are included in the investment list allowed in the issuance prospect and contract agreed between Colombia Telecomunicaciones S.A. E.S.P. and Bank of New York Mellon *(see Note 19)*.

7. Accounts Receivable, Net

The balance of accounts receivable at December 31 was comprised of:

	2013	2012
Short-term:		
Telecommunication services	**$ 873,845,434**	$ 811,661,555
Commercial brokers and distribution channels	**135,925,343**	155,915,469
Accounts receivable from domestic operators	**97,975,470**	99,946,230
Tax advances or balances in favor	**97,578,056**	75,711,426
Other accounts receivable (1)	**11,939,496**	38,248,540
Foreign debtors (2)	**50,746,683**	66,506,803
Shareholders, related parties and associated companies *(Note 28)*	**57,463,305**	32,580,664
Portfolio of subsidies and contributions (3)	**14,694,308**	41,205,246
Advances and prepayments to third parties (6)	**15,221,769**	6,365
Provision for doubtful accounts (4)	**(709,228,079)**	(679,085,470)
	646,161,787	642,696,828
Long-term:		
Accounts receivable – PARAPAT (5)	**903,175,104**	903,175,104
Accounts receivable with domestic operators	**134,610,499**	134,610,499
Other debtors (1)	**61,083,147**	–
Portfolio of subsidies and contributions (3)	**40,485,869**	43,829,776
Deposits and advances delivered to third parties (6)	**13,581,305**	45,743,854
Accounts receivable from official entities	**15,622,149**	15,622,149
Accounts receivable for IRU contracts and payment agreements	**1,425,440**	1,180,060
Bien Provision for doubtful accounts (4)	**(157,481,988)**	(162,793,639)
	1,012,501,525	981,367,803
	$ 1,658,663,312	$ 1,624,064,631

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

	2013	2012
Short-term		
Telephone books' agreement (a)	**$ 2,906,904**	$ 16,266,294
Short term accounts receivable (b)	**8,015,369**	12,764,122
PARAPAT debtors – (real estate taxes)	**237,403**	7,472,517
Guarantee contract – RTVC	**779,820**	1,745,607
	$ 11,939,496	$ 38,248,540
Long-term		
Other debtors – Valuation of coverage instruments By type of change (c)	**$ 61,083,147**	$ –

7. Accounts Receivable, Net (continued)

(a) In 2013 includes balances receivable from Publicar for $2,906,904 (2012 – Danaranjo $2,279,294 and Publicar $13,987,000).
(b) Mainly includes the commercial support and media return volumes of $6,125,726, and other debtors of $1,889,643. In 2012 includes commercial support and media return volumes of $5,169,000, process of insurance invoicing of $832,000 and rental of spaces for $471,000 and other debtors for $5,725,000.
(c) Corresponds to the valuation of permanent type of change of the financial subyacent and is used to calculate the leverage ratio.

(2) In 2013 includes roaming accounts receivable for $19,501,322 and international operators of $31,245,361. In 2012 corresponds to international operators per interconnection concept for $60,138,593.

(3) Subsidies and contributions portfolio

Voice Subsidies

Resolution 2466 of 2010 recognized a deficit of $112,765 million for the period of application of rules under Law 812 of 2003 (2003 – 2006). During 2010 and 2011 partial payments of $61,483 million were received. In 2012 the FTIC 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 applying Law 812 of 2003, as well as ordering the payment of the balance of $46,140 million during 2012, thereby paying the balance for the period 2003 – 2006.

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 assigning resources to reach stratum 1 and 2 (population with a low purchasing power) with the broadband. The Company received $1,502 million Colombian pesos from the bidding process of Digital homes.

Regarding the deficit of telephony subsidies during the transition from 2010 to 2015, through resolutions 2599 and 2608 of 2012, the FTIC recognized and ordered the payment of $25,967 million per deficit generated during 2010 and 2011, and a value of $4,458 million for the deficit generated during 2012, which will be disbursed in the term of 2013. Therefore, these values will be completely collected per concept of subsidies until 2012.

Subsidies from access to internet

The MINTIC issued Resolutions 1363 of 2012, 1703 of 2012 and 2775 of 2012 to grant subsidies to users belonging to stratum 1 and 2 to access Internet broadband, 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 check their appropriate application thereof, as well as the reported information. According to Resolution 588 of 2010 and Circular No 001 of 2013 of MINTIC, the broadband aids will be cancelled in this year with the quarterly compensation.

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

	2013	2012
Balance at the beginning of the year	**$ 841,879,109**	$ 300,864,798
Balance at the beginning of the merged entity, net of write-offs	**–**	469,058,881
Provision for the year charged to results *(Note 24)*	**65,288,291**	71,592,348
Written-off accounts receivable	**(39,096,798)**	–
Provision for late interest payments *(Note 26)*	**2,349,401**	2,840,497
Recovery of the provision *(Note 27)*	**(3,709,936)**	(2,477,415)
Balance at the end of year	**$ 866,710,067**	$ 841,879,109

7. Accounts Receivable, Net (continued)

(5) Accounts receivable from PARAPAT at December at December 31, 2013 and 2012, correspond to payments made by the Company because of the agreements with Nortel, Ericsson, Siemens, Itochu and Telenariño and the payment made for the acquisition of BATELSA. The recoverability of these balances is evaluated annually based on the sufficiency of assets foreseen by the close of the exploitation contract, which was established for 2028 *(Note 30).*

(6) 2013 mainly includes embargos for legal deposits against Celuoriente for $12,071,981 and lawsuits with territorial entities and natural persons for $16,686,656. 2012 mainly includes embargos for legal deposits against Celuoriente for $28,072,000 and lawsuits with territorial entities and natural persons for $17,671,611.

8. Inventories, Net

The balance of inventories at December 31 was comprised of:

	2013	2012
Mobile telephones and accessories	**$ 63,285,608**	$ 52,484,221
IT equipment	**4,867,835**	5,973,387
Equipment in transit	**8,965,120**	4,454,339
Other inventories for sale and materials	**8,199,253**	3,118,583
Provision for protection of inventories	**(5,758,484)**	(5,545,795)
	$ 79,559,332	$ 60,484,735

The following is the movement of the provision for the protection of inventories during the period from January 1 to December 31:

	2013	2012
Balance at beginning of year	**$ 5,545,795**	$ 1,478,267
Balance at beginning of year of the absorbed company	**–**	3,884,223
Provision charged to the results of the year *(Note 24)*	**294,539**	953,100
Recovery of the provision *(Note 27)*	**(81,850)**	(769,795)
Balance at end of year	**$ 5,758,484**	$ 5,545,795

9. Intangibles, Net

The balance of intangibles, net at December 31 was comprised of:

2013

	Cost	Accumulated Amortization	Net Book Value
Non amortizable			
Trust rights (1)	**$ 28,692,143**	**$ –**	**$ 28,692,143**
Amortizable			
Mobile telephony concessions *(Note 3)*	**2,479,656,413**	**(2,090,994,757)**	**388,661,656**

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)**		**–**
	$	**4,061,775,448**	**$**	**(3,402,366,703)**	**$**	**659,408,745**

2012

		Cost		Accumulated Amortization		Net Book Value
Non amortizable						
Trust rights (1)	$	44,958,582	$	–	$	44,958,582
Amortizable						
Concessions of mobile telephony *(Note 3)*		2,197,905,862		(1,860,679,925)		337,225,937
Goodwill (*Note 3*)		931,121,624		(883,001,302)		48,120,322
Qualifying securities *(Note 3)*		436,461,123		(272,455,364)		164,005,759
Rights of use (2)		133,081,575		(62,410,014)		70,671,561
Software Licenses		9,882,749		(5,710,695)		4,172,054
Goods acquired under financial leasing (3)		19,027,842		(19,027,842)		–
	$	3,772,439,357	$	(3,103,285,142)	$	669,154,215

(1) Resources assigned to III Biannual Plan and Compartel, pending execution.
(2) Includes, among others, rights of irrevocable use capacity– IRU acquired with the related parties TIWS América S.A., TIWS España S.L., and TIWS Colombia S.A and rights of use UNE – EPM Telecomunicaciones.
(3) Equipment received from Leasing de Occidente regarding the execution of the SENA project, which are fully amortized.

The expense recorded in the 2013 statement of income for amortization of intangibles was of $287,969,288 (2012 – $284,593,595).

10. Prepaid Expenses and Deferred Charges, Net

The balance of deferred charges, which includes prepaid expenses and deferred charges, net at December 31 was comprised of the following:

		2013		2012
Prepaid expenses:				
Short-term				
Services	**$**	**1,591,309**	$	8,604,628
Insurance		**6,486,954**		4,811,163
Rentals		**3,008,659**		2,846,514
Other prepaid expenses		**105,255**		33,591
		11,192,177		16,295,896

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

	2013	2012
Long-term		
Insurance	**3,284,212**	3,707,982
Services	**–**	328,595
	3,284,212	4,036,577
	$ 14,476,389	$ 20,332,473

Deferred Charges, Net

2013

	Cost	Accumulated Amortization	Net Book Value
Projects:			
Of infrastructure to render services	**$ 573,922,685**	**$ (416,995,385)**	**$ 156,927,300**
SAP/ERP Implementation and invoicing systems	**192,831,908**	**(172,331,341)**	**20,500,567**
Software	**1,017,612,612**	**(686,139,977)**	**331,472,635**
Projects in course	**16,392,325**	**–**	**16,392,325**
Leasehold improvements	**136,773,715**	**(104,780,224)**	**31,993,491**
Equity tax *(Note 25)*	**136,808,082**	**(91,205,388)**	**45,602,694**
Other deferred charges (1)	**10,542,484**	**(101,099)**	**10,441,385**
	$ 2,084,883,811	**$ (1,471,553,414)**	**$ 613,330,397**

2012

	Cost	Accumulated Amortization	Net Book Value
Projects:			
Of infrastructure to render services	$ 575,156,871	$ (362,946,011)	$ 212,210,860
SAP/ERP Implementation and invoicing systems	193,592,224	(151,568,007)	42,024,217
Software	874,251,961	(585,281,676)	288,970,285
Projects in progress	28,019,592	–	28,019,592
Leasehold improvements	126,687,449	(91,858,704)	34,828,745
Equity tax *(Note 25)*	136,808,082	(45,602,694)	91,205,388
Other deferred charges (1)	11,737,047	(101,098)	11,635,949
	$ 1,946,253,226	$ (1,237,358,190)	$ 708,895,036

(1) Includes issue expenses of international bonds of $9,977,790.

The expense recorded in the 2012 statement of income for the amortization of deferred charges for $284,412,183 (2012 – $258,720,859).

11. Property, Plant and Equipment, Net

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

2013

	Cost	Accumulated Amortization	Net Book Value
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**
	525,010,030	**–**	**525,010,030**
Depreciable:			
Telecommunications network (2)	**1,219,454,686**	**(515,782,384)**	**703,672,302**
Telecommunications equipment (3)	**3,917,117,992**	**(2,566,352,904)**	**1,350,765,088**
Computer equipment	**295,309,763**	**(247,145,072)**	**48,164,691**
Basic telephony	**215,293,196**	**(131,317,628)**	**83,975,568**
Machinery and equipment	**661,478,007**	**(453,920,716)**	**207,557,291**
Constructions and buildings	**274,824,000**	**(120,544,293)**	**154,279,707**
Furniture and fixtures and office equipment	**63,718,032**	**(33,905,986)**	**29,812,046**
Transportation equipment	**3,169,254**	**(2,540,723)**	**628,531**
	6,650,364,930	**(4,071,509,706)**	**2,578,855,224**
	$ 7,175,374,960	**$ (4,071,509,706)**	**$ 3,103,865,254**

2012

	Cost	Accumulated Amortization	Net Book Value
Non depreciable:			
Constructions in progress (1)	$ 402,518,519	$ –	$ 402,518,519
Equipment in warehouse	87,127,369	–	87,127,369
Land	18,271,438	–	18,271,438
	507,917,326	–	507,917,326
Depreciable:			
Telecommunication network (2)	1,131,116,008	(421,329,384)	709,786,624
Telecommunication equipment (3)	3,704,677,796	(2,404,095,949)	1,300,581,847
Computer equipment	277,362,366	(232,481,104)	44,881,262
Basic telephony	163,346,555	(40,795,117)	122,551,438
Machinery and equipment	553,275,235	(213,216,789)	340,058,446
Constructions and buildings	207,209,897	(108,625,176)	98,584,721
Furniture and fixtures and office equipment	52,324,905	(27,877,715)	24,447,190
Transportation equipment	3,210,782	(2,273,388)	937,394
	6,092,523,544	(3,450,694,622)	2,641,828,922
	$ 6,600,440,870	$ (3,450,694,622)	$ 3,149,746,248

11. Property, Plant and Equipment, Net (continued)

(1) Constructions in progress include, among others, the following headings; 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. Additionally, this includes labor and materials for contributions of basic line, television and broadband and services, as well as materials for the deployment of network cable of the copper type cable and optical fiber cable, among others.
(2) The Telecommunications Network includes among others, the following concepts: Pairing Cable, Optical Fiber Cable and Infrastructure.
(3) Telecommunications equipment, include among others, the following concepts: Network Nodes and Mobile Access Equipment, Commuting Centrals and Transmission Equipment.

The expense recorded in the statement of income of 2013 for depreciation of property, plant and equipment was of $644,552,498 (2012 – $592,786,839).

Assets Reappraisal

The historic accumulate depreciation costs and net value corresponds to balances in books at the closing of September 2012, less the depreciation and write-off effect.

The balance of assets reappraisal at December 31 is detailed below:

2013

	Cost	Accumulated Depreciation	Net Value in Books	Appraisal	Valuation
Fixed and mobile telephony network	**$ 2,342,128,813**	**$ 873,732,853**	**$ 1,468,395,960**	**$ 1,645,344,751**	**$ 176,948,790**
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**
Lands	**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**	**1,458,276**	**420,345**
	$ 5,851,371,385	**$ 3,148,415,582**	**$ 2,702,955,803**	**$ 2,924,155,394**	**$ 221,199,591**

2012

	Cost	Accumulated Depreciation	Net Value in Books	Appraisal	Valuation
Fixed and mobile telephony network	$ 3,999,734,263	$ 2,098,521,308	$ 1,901,212,955	$ 2,231,857,558	$ 330,644,603
Computer and communication equipment	1,637,299,327	960,219,319	677,080,008	712,798,609	35,718,601
Machinery and equipment	89,146,901	44,783,692	44,363,209	55,731,962	11,368,753
Office equipment	50,526,502	27,004,924	23,521,578	27,117,584	3,596,006
Building	59,467,020	19,653,670	39,813,350	42,203,075	2,389,725
Land	18,271,438	–	18,271,438	26,656,099	8,384,661
Fleet and transportation equipment	3,210,782	2,172,850	1,037,932	1,642,336	604,404
	$ 5,857,656,233	$ 3,152,355,763	$ 2,705,300,470	$ 3,098,007,223	$ 392,706,753

12. Financial Obligations

Below is a detail of the short and long-term financial obligations balance at December 31, 2013:

Short-term		Value	Rate
Local currency			
Credits in local currency	$	62,000,000	Fixed 5,63 % annual
Credits in local currency		15,000,000	DTF 1,25 % annual
		77,000,000	
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		19,987,863	Libor 3M +1.35 % annual
		296,278,104	
	$	373,278,104	
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
		1,409,140,683	
In foreign currency			
Credits in foreign currency (a)		258,438,600	Libor 6M +0.39 % Semester
	$	1,667,579,283	

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

The following is a detail of the short-term and long-term financial obligations at December 31, 2012:

Short-term		Value	Rate
In foreign currency			
Credits in foreign currency (a)	$	59,043,115	Between LIBOR +0.10% y +0.68% semiannual
In local currency			
Credits in local currency		600,000,000	IBR + 4.39% Quarterly
Credits in local currency		809,140,682	Between DTF + 3.87% y 4.00% Quarterly
		1,409,140,682	
In foreign currency			
Credits in foreign currency (a)		296,209,283	Between LIBOR +0.07% y +0.68% semiannual
	$	1,705,349,965	

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

12. Financial Obligations (continued)

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

	2013		2012	
Maturity	**Local Currency**	**Foreign Currency**	**Local Currency**	**Foreign Currency**
2013	**$ –**	**$ –**	$ –	$ 59,043
2014	**77,000**	**296,278**	–	59,043
2015	**87,605**	**64,339**	112,968	59,043
2016	**328,079**	**64,339**	358,869	59,043
2017 thereafter	**993,457**	**129,761**	937,303	119,081
	$ 1,486,141	**$ 554,717**	$ 1,409,140	$ 355,253

The amount of interests payable at December 2013 was for COP$7,051,201 (2012 - $6,883,395).

13. Suppliers and Accounts Payable

Below is a detail of the suppliers and accounts payable at December 31:

	2013	**2012**
Suppliers in foreign currency	**$ 473,940,359**	$ 256,754,487
Domestic suppliers	**211,118,141**	196,328,258
Costs and expenses payable	**184,581,010**	334,571,917
Shareholders, related parties and associated companies *(Note 28)*	**117,531,577**	98,099,560
Interconnection suppliers	**9,388,115**	11,250,627
Official creditors (1)	**6,537,556**	284,543,834
Payroll withholdings and contributions	**2,677,998**	1,199,859
	$ 1,005,774,756	$ 1,182,748,542

(1) In 2012 includes $254,791,300 corresponding to unpaid installments of the exploitation contract with PARAPAT.

14. Taxes, Levies and Rates

The following is a detail of the taxes, levies and rates at December 31:

	2013	**2012**
Equity tax *(Note 25)*	**$ 45,602,694**	$ 45,602,694
Value added tax – Sales VAT	**43,555,581**	38,721,955
Tax withholdings	**27,185,810**	31,225,067
Taxes, contributions and rates payable	**25,526,654**	31,103,031
Income tax *(Note 25)*	**5,420,352**	276,606
	147,291,091	146,929,353
Long-term tax on equity *(Note 25)*	**–**	45,602,694
	$ 147,291,091	$ 192,532,047

15. Labor Liabilities

The following is a detail of the labor liabilities at December 31:

		2013		2012
Vacations	**$**	**12,189,113**	$	10,762,620
Severance payments		**10,297,039**		9,303,612
Interests on severance payments		**1,226,506**		1,262,156
Service premiums		**3,500**		57,006
	$	**23,716,158**	$	21,385,394

16. Estimated Liabilities and Provisions

The balance of estimated liabilities and provisions at December 31 was comprised by:

		2013		2012
Short-term:				
For costs and expenses (1)	**$**	**323,408,012**	$	207,085,460
Provisions for fringe benefits		**34,952,019**		33,428,266
For contingencies *(Note 29)*		**11,992,956**		4,962,112
Miscellaneous provisions		**10,024,206**		19,992,166
Fiscal obligations		**139,685**		3,759,130
	$	**380,516,878**	$	269,227,134
Long-term:				
For long-term contingencies *(Note 29)*	**$**	**8,413,335**	$	10,424,548
For costs and expenses – Valuation of Hedge instruments (2)		**–**		64,619,554
	$	**8,413,335**	$	75,044,102

(1) The costs and expenses account includes (a):

Other costs and expenses (3)	**$**	**199,991,573**	$	96,888,795
Interconnection		**39,010,622**		29,234,266
Valuation of hedge instruments (2)		**19,695,510**		28,600,563
Public utilities		**14,766,280**		12,314,227
Licenses and maintenance		**14,482,837**		12,036,232
Commissions and commercial severance		**34,153,725**		27,426,418
Rentals		**1,307,465**		584,959
	$	**323,408,012**	$	207,085,460

(a) Includes for 2013 and 2012 estimated liabilities and provisions in foreign currency for $45,194,874 and for $64,060,535 respectively.

16. Estimated Liabilities and Provisions (continued)

(2) After the valuation at market prices of the assets and liabilities of the hedge operations, the accounting records of each component at December 31, 2012 is summarized below:

		2013		2012
Financial exchange rate (a)	**$**	**4,491,462**	$	–
Commercial exchange rate		**(5,190,016)**		49,907,138
Interest rate		**20,394,064**		(21,306,575)
Total position	**$**	**19,695,510**	$	28,600,563

(a) Used to calculate the leverage ratio

3. Once the valuation at market price of assets and liabilities of the long-term coverage operations.

We detail below the accounting records for each of the components at the closing of 2012:

Exchange rate	$	(24,501,516)
Type of interests		(40,118,038)
Total position	$	(64,619,554)

The value of the memorandum accounts recorded by the component of other effects by type of interests is of $140,290,782 (2012 - $51,311,322) *(Note 21).*

4. 2013 includes, among others, obligations to be made for $70,982,000 regarding the assigning of the 4G license.

17 Deferred Liabilities

Deferred liabilities at December 31 were comprised of:

		2013		2012
Short-term:				
Income received in advance:				
Rights of use and enjoyment of sites and towers *(Note 30)*	**$**	**10,296,439**	$	10,296,439
Income – Prepaid platform		**8,424,415**		10,035,751
Telephone books – Publicar		**3,578,058**		5,222,193
Other income received in advance		**16,711,185**		5,768,023
Irrevocable rights of use – IRU		**2,146,455**		2,237,884
	$	**41,156,552**	$	33,560,290
Long-term:				
Income received in advance:				
Rights of use and enjoyment of sites and towers *(Note 30)*	**$**	**137,604,757**	$	146,724,256
Irrevocable rights of use – IRU		**14,753,161**		16,902,753
Credit for deferred monetary correction		**794,271**		3,971,360
	$	**153,152,189**	$	167,598,369

18. Other Liabilities

The balance of other liabilities at December 31 was comprised of:

		2013		2012
Deposits received from third parties (1)	$	**71,781,366**	$	76,540,755
Income received from third parties (2)		**41,916,158**		64,572,809
Deposits received in guarantee		**3,757,757**		2,329,285
		117,455,281		143,442,849
Less – Other long-term liabilities (3)		**85,026,493**		83,515,151
	$	**32,428,788**	$	59,927,698

(1) Deposits received from third parties include:

		2013		2012
Acquisition of Spectrum License	$	**43,208,568**	$	43,208,568
FTIC – III Biannual Plan		**25,809,138**		30,879,734
Fonade – Compartel (4)		**76,712**		1,833,899
Other deposits received from third parties		**2,686,948**		618,554
	$	**71,781,366**	$	76,540,755

(2) In 2013 includes, among others, the following headings; income received for third parties due to damages of $18,406,104, (2012 - $18,406,104) promissory note of Telenariño $18,941,520, (2012 - $18,941,520) and collections from third parties $4,352,752 ($18,139,000), among others.

(3) In 2013 mainly includes the obligation for the acquisition of the spectrum license in the mobile operation and income received for third parties Parapat and Telenariño

(4) The decrease is due to the execution of the Digital Home Projects during the year for $1,413,328. In Compartel Instituciones Públicas the project closed for $368,750 according to the liquidation minute signed between the parties in July 2013 showing this same value as a subvention benefit in income.

19. Bonds and Securities

The balance of bonds and securities at December 31th is comprised of:

		2013		2012
Bonds and securities (1)	$	**1,445,122,500**	$	1,326,172,500

(1) The characteristics of the bonds issue is summarized below:

Type	Currency of Issuance	Total amount of Issuance	Par Value	Total Authorized Amount	Rate / Coupon	Date of Issuance	Date of Maturity
Rule 144A	US Dollar	USD 750,000	USD 750,000	USD 750,000	5,375%	27–Sept–12	27–Sept–22

19. Bonds and Securities (continued)

Premiums and Discounts	Issuance Character	Date of Issuance	Date of Maturity	Maximum Redemption Term	Interest Rate	Form of Payment	Guarantees and Payment Stipulations Over Cancellation	Disclose if Applicable, Current and non-current Part of Bonds Payable
$ –	Substitution of financial liabilities	27–Sept–12	27–Sept–22	10 years	5,375%	Semester	N/A	Non-current; bullet amortization.

At the end of 2013 interests accrued over bonds amounted to $23,583,596 (2012 – $18,790,000)

Compliance with Obligations Acquired with Bondholders

The covenants established in the "Note Description" section were complied with from January first (1) to December thirty first (31) of two thousand thirteen (2013) mentioned in the Offering Memorandum of the Notes. Consequently no event occurred during this period that involves the acceleration of securities in accordance with the contents of the Issuance Prospect and Contract entered into between Colombia Telecomunicaciones S.A. E.S.P. and the Bank of New York Mellon. The Bank of New York Mellon was designated as the trustee in accordance with the trust (indenture). Therefore, the Bank of New York Mellon acts as Trustee, transfer agent and the main agent of the payment related with the bonds.

In respect of the financial leverage indicator at year-end 2013, the Company maintained a ratio debt/EBITDA of 2.54 times (2012 - 2.67 times), complying with the covenant of limitation on indebtedness regarding, the limit on the Consolidated Net Leverage Ratio of less than 3.75 times.

20. Shareholders' equity, Net

Share Capital

The Company's share capital may be increases 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.

At December 31, 2013 and 2012 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 $544,942,224 with the balancing entry in the "Additional paid-in capital" account. Therefore, 544,942,224 Class B ordinary shares were issued to the shareholders of the merged company of a par value of one thousand Colombian pesos (COP$ 1,000) each. As a result of the above, Colombia Telecomunicaciones S.A. E.S.P. share capital as a company resulting from the merging is as follows:

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

20. Shareholders' equity, Net

Based on the above, the equity participation at December 31, 2013 and 2012 is detailed below:

Company	N° of Shares		Value
Telefónica Internacional S.A.U.	473,457,094	$	473,457,094
La Nación – Ministerio de Hacienda y Crédito Público	436,461,222		436,461,222
Olympic Ltda., 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 B.V.	2		2
Central de Inversiones S.A. – CISA	1		1
Terra Networks Colombia S.A.S.	1		1
	1,454,870,740	$	1,454,870,740

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's is not feasible of being distributed as dividends.

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 subscribed capital. The reserve is not distributable before the liquidation of the Company, but may be used to absorb or reduce losses. Appropriations in excess of the above mentioned 50% made by the shareholders are of free disposition of the general shareholders' meeting.

Tax Depreciation

In accordance with tax regulations, when the Company claims in its tax return the depreciation quotes that exceed the value of the quotes recorded in the accounting, it sets up a non-distributable reserve equivalent to 70% of the higher amount claimed as a 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 a revenue not constituting income.

21 Memorandum Accounts

The balance of memorandum accounts at December 31 was comprised of:

		2013		2012
Debit accounts:				
Contingent rights:				
Goods held by third parties	**$**	**16,357,582**	$	12,725,151
Contingent rights from the concession		**368,989,265**		34,813,829
Litigation and/or lawsuits in favor		**120,775,409**		193,474,659
		506,122,256		241,013,639

21 Memorandum Accounts (continued)

	2013	2012
Tax: *(Note 25)*		
Accumulated tax losses	**2,504,062,309**	2,305,103,781
Excess of presumptive income	**186,339,993**	321,438,234
	2,690,402,302	2,626,542,015
Control:		
Assets inflation adjustments	**140,067,939**	278,676,861
Assets written-off	**18,666,020**	18,666,020
Accounts receivable written-off	**962,410,151**	927,805,738
Furniture, fixtures and office equipment	**2,093,409,171**	1,754,163,244
	3,214,553,281	2,979,311,863
Total debit memorandum accounts	**$ 6,411,077,839**	$ 5,846,867,517
Credit accounts:		
Contingent responsibilities:		
Litigation and/or lawsuits(improbable)	**$ 4,100,447,238**	$ 4,820,441,893
Contracts pending execution *(Note 30)*	**4,425,026,898**	3,923,251,440
Compensation installment to PARAPAT *(Note 2)*	**292,452,107**	148,463,768
Contractual guarantees	**14,037,875**	12,874,172
Valuation of hedge instruments *(Note 16)*	**140,290,782**	51,311,322
	8,972,254,900	8,956,342,595
Tax: *(Note 25)*		
Difference between accounting and tax equity	**731,690,752**	283,905,744
Difference between accounting and tax loss	**83,619,497**	67,594,454
	815,310,249	351,500,198
Control:		
Assets corresponding to Telecom and Teleasociadas in liquidation, net	**901,136,669**	1,034,408,882
Equity inflation adjustments	**529,501,465**	575,104,158
Other memorandum accounts	**–**	242,466,075
	1,430,638,134	1,851,979,115
Total credit memorandum accounts	**$ 11,218,203,283**	$ 11,159,821,908

22. Operating Revenues

Operating revenues for the year ended December 31 was comprised of:

Telecommunication services – Fixed operation:		
Local telephony	**$ 550,419,047**	$ 582,236,897
Broadband	**404,539,545**	383,018,877
Domestic and international long distance	**230,047,607**	222,159,676
Data transmission services	**226,459,757**	226,767,443
Other operating income (1)	**121,919,385**	124,943,093
Satellite television	**118,747,729**	88,146,041

22. Operating Revenues (continued)

		2013		2012
Wholesale and retail – sale of equipment		**56,677,230**		46,863,156
Rental of voice, data and other equipment		**53,048,975**		52,422,658
Subsidies (2)		**8,165,549**		12,706,506
Telecommunication services – Mobile operation:				
Basic charges and time on air		**1,535,335,273**		1,462,529,014
Data services and transmission – connectivity		**447,201,951**		369,379,295
Income from sale of terminal equipment and accessories		**257,894,741**		235,755,273
Other added value services (3)		**157,851,945**		152,213,493
Other income from mobile telephony services (4)		**32,466,389**		39,726,395
	$	**4,200,775,123**	$	3,998,867,817

(1) Includes, among others, income from IT work positions – PDTI, turnkey projects, IT security services, housing and hosting and hubbing, as well as income from telephone books, reconnections and other telephony and aggregate value services – SVAs.
(2) Includes funds received for the development of the Compartel and III Biannual Plan project.
(3) Includes unloading and application contents, text messenger services, added value services.
(4) Includes commercial support, invoice services and collection, expired charges and link rental.

23 Costs of Sales and Rendering Services

The cost of sales and of rendering of services for the year-ended at December 31 was comprised of:

		2013		2012
Cost of sale of mobile equipment and accessories	**$**	**378,392,830**	$	318,533,816
Use of telecommunications infrastructure		**215,121,216**		214,627,781
Interconnection with domestic operators		**194,216,015**		249,418,456
Maintenance and repair contracts		**180,160,025**		194,248,700
Compensation rate		**162,011,185**		128,158,073
Utilities		**111,013,125**		108,228,809
Added value services for the use of platforms		**99,001,129**		99,014,833
Cost of sales of other equipment		**86,950,375**		72,759,329
Personnel costs		**60,729,437**		57,525,551
Orders and contracts for other services		**50,086,558**		43,821,450
Rental		**49,024,838**		48,688,926
Interconnection with international operators		**34,933,879**		34,179,252
Retribution from rendering roaming services		**24,317,690**		20,652,668
Fees		**22,746,815**		22,993,917
Miscellaneous		**8,306,521**		7,277,315
Travel expenses and costs		**6,675,414**		7,110,672
Printing and publications		**4,602,581**		2,398,077
	$	**1,688,289,633**	$	1,629,637,625

24. Operating Administrative and Selling Expenses and Provisions

Operating administrative, sales expenses and provisions for the year ended December 31 was comprised of:

		2013		2012
Administrative:				
Utilities	$	**117,431,163**	$	103,792,329
Personnel expenses		**93,489,650**		88,557,441
Taxes, levies and rates		**64,587,988**		67,501,845
Maintenance and repairs		**36,686,858**		31,300,343
Insurance		**13,693,651**		12,444,767
Fees		**10,814,508**		13,702,109
Miscellaneous		**10,089,611**		14,153,928
Contributions and affiliations		**7,937,803**		6,302,779
Rental		**7,049,865**		10,954,579
Travel expenses		**4,519,706**		3,844,399
Legal expenses (1)		**456,322**		9,301,065
	$	**366,757,125**	$	361,855,584
Selling:				
Commissions	**$**	**205,797,399**	$	175,482,947
Utilities		**166,168,321**		160,328,143
Advertising, publicity and promotion		**129,839,423**		120,668,790
Personnel expenses		**139,962,441**		132,578,482
	$	**641,767,584**	$	589,058,362
Provisions:				
For doubtful accounts *(Note 7)*	**$**	**65,288,291**	$	71,592,348
For protection of inventories *(Note 8)*		**294,539**		953,100
	$	**65,582,830**	$	72,545,448

(1) in 2012, mainly includes legal expenses and the merging formalization with Telefónica Móviles Colombia S.A.

25. Income Tax

Tax regulations applicable to the Company establish the following:

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

(b) Summarized below are the main modifications of the tax regime as of 2013, which incorporated by Law 1607 of December 26, 2012:

1. The income tax rate decreased from 33% to 25% as of taxable year 2013;
2. The “CREE” income tax for equity was created as of 2013. This tax was computed based on gross revenues received, less revenues not constituting income, costs, deductions, exempt income and capital gains at a rate of 9% until 2015 and of 8% for the subsequent years. For 2013, 2014 and 2015, the applicable rate will be of 9%. In determining the base for the liquidation of the CREE tax, the compensation of tax losses or excess of presumptive income is not permitted;

25. Income Tax (continued)

3. Legal entities that are declarers of income tax are exonerated from the payment of contributions on the payroll in favor of the National Apprenticeship Service – SENA and of the Family Welfare Colombian Institute – ICBF, corresponding to employees who earn, individually considered, 10 current minimum monthly legal salaries. This exoneration starts as of the time the tax withholding system for the collection of the income tax for the CREE is implemented (anyway before July 1, 2013);
4. It is established that only for tax purposes references to 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 concept of permanent establishment is defined, which is understood as a fixed place by means of which a foreign company develops business in the country;
6. The way of calculating taxed and non-taxed profits for companies which distribute profits to their partners or shareholders, is changed; and,
7. New rules are introduced regarding the transfer pricing regime in operations with related parties located in free zones, and certain operations of taxpayers with foreign entities related with a permanent establishment in Colombia or abroad are regulated.

(c) In accordance with Article 73 of Law 1341 of 2009 and Article 24 of Law 142 of 1994, telecommunication companies, companies that render basic commuted public telephone services, local mobile telephony in the rural sector, and long distance are excluded from presumptive income.

(d) Excess of presumptive income over ordinary income as of 2003 may only be compensated with net ordinary income within the following five years. In all cases excess of presumptive income over net ordinary income may be readjusted for tax purposes as of taxable year 2007.

However, the aforementioned provision stated that those who had filed a request of legal stability contracts before November 1, 2010, including the stabilization of the deduction for the investment in the fixed assets referred to in Article 158–3 of the Tax Code and which premium were set based on the total investment value which was the purpose of the stability, could sign a legal stability contract which included such deduction. In these cases, the legal stability term of the special deduction, may not exceed three (3) years. The Company filed the respective request before November 1, 2010, although it did not recognize this benefit, given that the request is still pending approval.

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

	2013	2012
Accounting equity	**$ 1,131,199,014**	$ 1,610,321,601
Add – Items that increase accounting equity:	**3,461,595,080**	3,127,555,960
Accumulated amortization of goodwill	**921,515,485**	883,001,302
Accumulated accounting amortization of licenses	**289,421,477**	272,455,364
Excess of accumulated accounting vs. tax depreciation	**171,114,439**	80,802,806
Accumulated accounting software amortization	**686,139,977**	598,491,727
Liabilities with foreign related parties	**9,984,394**	15,921,237
Estimated liabilities and provisions	**434,751,882**	353,259,746
Provision for accounts receivable for accounting purposes	**866,710,067**	841,879,109
Provision for inventories	**5,758,485**	5,545,795
Difference of intangible vs. accounting tax cost	**76,198,874**	76,198,874

25. Income Tax (continued)

	2013	2012
Less – items that decrease accounting equity:	**2,729,904,328**	2,843,650,216
Tax amortization of goodwill	**931,121,624**	931,121,624
Accumulated tax accounting amortization – licenses	**512,659,997**	512,659,997
Equity tax	**45,602,694**	91,205,388
Self-tax withholding and municipal tax advance	**-**	10,975,872
Accumulated tax accounting amortization - software	**541,253,176**	470,597,784
Assets reappraisals	**221,199,590**	392,706,753
Tax provision for accounts receivable	**478,067,247**	434,382,798
Net tax equity	**$ 1,862,889,766**	$ 1,894,227,345

Below is the reconciliation between accounting loss before tax and the estimated tax loss at December 31:

	2013	2012
Loss before the provision of income tax	**$ (256,592,379)**	$ (280,291,499)
Add – non-deductible expenses:		
Depreciation and non-deductible accounting amortization	**130,144,839**	110,164,038
Provision for bad debts, net	**65,288,291**	71,485,061
Amortization of goodwill	**38,514,183**	38,514,183
Recovery of the deduction of real productive fixed assets	**563,073**	–
Donations	**–**	305,753
Tax on financial movement	**8,129,289**	8,136,742
Fines, penalties, and interests	**3,180,952**	182,128
Calculation of presumptive interests	**126,018**	121,260
Litigation and civil lawsuits	**10,399,035**	8,495,958
Other rates and taxes	**10,694,077**	10,612,456
Other years' and extraordinary expenses	**461,120**	1,886,698
Other non-deductible expenses – accounting provisions	**59,493,318**	57,663,692
Total non-deductible expenses:	**326,994,195**	307,567,969
Less – Tax deductions and non-taxable income:		
Deductible expenses	**134,101,846**	–
Tax accounts receivable provision	**93,367,655**	226,959,810
Recoveries of non-deductible provisions recorded as income	**15,223,638**	13,013,705
Occasional earnings	**681,559**	–
Total tax deductions and non-taxable income:	**243,374,698**	239,973,515
Tax loss	**$ (172,972,882)**	$ (212,697,045)

25. Income Tax (continued)

Tax Losses

At December 31, 2012 the Company accumulates tax losses of $2,504,062,312, which according to current tax legislation may be used to compensate future taxable income, if any, without limitation of time and amount. In all cases tax losses are annually readjusted. Tax losses originated as shown below:

Year of Origin		Tax Loss (1)		Inflation Adjustment –Tax Readjustment		Balance Pending Amortization or Compensation	Expiry Date
2006	$	71,095,777	$	22,091,607	$	93,187,384	Unlimited
2007		178,565,136		44,022,330		222,587,466	Unlimited
2008		252,872,931		39,665,099		292,538,030	Unlimited
2009		607,726,010		72,594,314		680,320,324	Unlimited
2010		311,341,968		29,165,970		340,507,938	Unlimited
2011		480,733,237		26,504,013		507,237,250	Unlimited
2012		190,147,498		4,563,540		194,711,038	Unlimited
2013		172,972,882		–		172,972,879	Unlimited
	$	2,265,455,439	$	238,606,873	$	2,504,062,309	

(1) Taken from tax returns.

The excess of presumptive income over ordinary income at December 31, 2013 is as follows:

Year of Origin		Excess Value		Inflation Adjustment –Tax Readjustment		Balance Pending Compensation	Expiry Date
		(Amounts in thousands of Colombian pesos)					
2009	$	63,261,423	$	7,549,771	$	70,811,194	2014
2010		54,602,929		5,113,118		59,716,047	2015
2011		52,896,584		2,916,168		55,812,752	2016
	$	170,760,936	$	15,579,057	$	186,339,993	

Income tax returns for taxable years 2009, 2010, 2011 and 2012 may be reviewed by the tax authorities within the period stated above. 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 the assessment of penalties that lead to the recognition of contingencies in the financial statements.

The following chart summarizes the status of the income tax returns to be subject to the review by the tax authorities:

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

Taxable Year	Closing Date for Review
2012	April 2018
2011	July 2017
2010	April 2016
2009	November 2016
2008	April 2016

25. Income Tax (continued)

Tax Losses (continued)

Below is a detail of the status of the income tax returns of Telefónica Móviles Colombia S.A., the company that was absorbed in the merging by Colombia Telecomunicaciones S.A. E.S.P.

Taxable Year	Closing Date of Review
2011	August 2017
2010	April 2016
2009	April 2017
2008	April 2014

The 2012 tax return of Colombia Telecomunicaciones S.A. E.S.P. showed a favorable balance of $61,543,959 of which $57,677,216 was compensated in the sales tax return – (VAT) of the second bimonthly period of 2013 and the remaining balance of $3,866,743 in TIDIS.

CREE Tax

The minimum tax for both the CREE and 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 is not lost to be converted into tax on equity, since this reference corresponds to a 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 mention above, the factors for its determination so define it.

The presumptive basis on which the income tax for equity CREE was computed will not be creditable in future periods; the characteristics of not being creditable could leave to understand that the tax would constitute an operating expense; however, based on the aforementioned structural elements that frame up this tax as income tax, such as its generating factor, which is the generating of earnings and its legislative framework, denotes that this tax is configured as an income tax with which it also concluded that the best classification in the statement of income of the Company is as an income tax expense. For taxable year 2013, $5,420,352 has been recorded for the CREE in the income tax. Such calculation is made on the basis that the equity base applicable for the Company as it is under tax loss position.

The determination of the income tax for equity CREE is described below:

	2013
Fiscal net equity for 2012 (1)	$ 2,007,537,779
3% tax basis	60,226,133
Income tax rate for the CREE Equity tax	9%
Total income tax for the CREE Equity tax	$ 5,420,352

(1) Based on the tax return for taxable year 2012.

25. Income Tax (continued)

Equity Tax

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

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

Equity tax for 2011 was determined as follows:

a) Colombia Telecomunicaciones S.A. E.S.P.	
Net equity 01/01/2011	$ 1,276,960,039
Equity tax rate 4.8%	61,294,082
Surtax 25%	15,323,520
Total equity tax	$ 76,617,602
b) Telefónica Móviles Colombia S.A.(absorbed entity)	
Net equity 01/01/2011	$ 1,763,219,454
4.8% Equity tax rate	84,634,534
Surtax 25%	21,158,633
Total equity tax	$ 105,793,167

Equity Revaluation

In 2011, the Company opted for the alternate accounting treatment of recording as deferred charges the portion pending payment of the equity tax and the surtax of $45,602,694 at December 2013 to be amortized during 2014. The amount paid for equity tax in 2013 was $45,602,694.

For 2012 and based on the approval of the General Shareholders' Meeting per Minute No. 46 of August 31, 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 $45,602,694 was amortized in this account for 2013.

Transfer Pricing

As of 2004, the requirement to make a transfer pricing study was enforced in order to support the operations the Company has entered into with its foreign related parties. At the date of this report the Company is in the process of preparing the transfer pricing study that will permit determining the effect in respect of the 2013 income tax provision, although the Company's Management estimates that there will be no significant adjustment in such calculation.

26. Financial Expenses, Net

Net financial expenses for the year ended December 31 are detailed below:

	2013	2012
Income:		
Late payment interests	**$ 10,070,902**	$ 10,772,897
Financial yields	**2,816,023**	4,027,296
Interests collected from financing	**678,957**	2,046,305
Other financial income	**11,279**	1,006,409
	13,577,161	17,852,907
Expenses:		
Interest from loans and bank commissions	**(255,391,136)**	(248,504,560)
Interest hedge operations, net	**(82,264,908)**	(76,868,615)
Late payment interest PARAPAT debt	**(3,642,840)**	(57,790,167)
Provision for accounts receivable late payment interest *(Note 7)*	**(2,349,401)**	(2,840,497)
Exchange difference expense, net	**(1,678,333)**	(2,040,098)
Other financial expenses	**(1,080,191)**	–
	(346,406,809)	(388,043,937)
	$ (332,829,648)	$ (370,191,030)

27. Other Non-operating Revenues (Expenses), Net

Other non-operating revenues (expenses) net for the year ended December 31 is detailed below:

	2013	2012
Revenues:		
Recoveries of costs and expenses of:		
Commission for penalization of commercial agents	**$ 14,893,499**	$ 11,868,779
Prior years' assumed taxes	**4,784,884**	2,686,339
Provision for accounts receivable *(Note 7)*	**3,709,936**	2,477,415
Other recoveries	**1,947,192**	2,198,252
Provision of inventories *(Note 8)*	**81,850**	769,795
Other non-operating revenues	**7,245,960**	9,054,633
Use of waste material	**3,682,707**	2,774,945
Indemnities of insurance and third parties companies	**3,500,176**	3,172,902
Deferred liability monetary correction	**3,177,087**	3,294,402
Administration of related parties	**3,025,315**	211,023
Income from the sale of assets, net	**800,462**	4,726,965
Excess of inventories	**31,228**	873,291
Taxes assumed in previous years	**–**	9,835,575
Provision of vertical projections	**–**	5,129,063
Provision of management fee	**–**	3,221,109
Fess and collaboration contract	**–**	1,161,793
Rental of transportation equipment	**–**	309,514
	$ 46,880,296	$ 63,765,795

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

		2013		2012
Expenses:				
Assumed taxes	**$**	**(17,484,032)**	$	(19,779,651)
Litigation, penalties and contingencies		**(15,323,160)**		(10,539,315)
Amortization of goods delivered in guarantee		**(4,101,218)**		(7,106,217)
Loss from the sale of property, plant and equipment		**(1,986,645)**		(1,121,639)
Loss from write-off of deferred charges and intangible		**(875,218)**		(450,869)
Costs and expenses from prior years		**(461,123)**		(1,886,697)
Indemnities of damages for third parties		**(61,172)**		(1,291,845)
Other non-operating expenses		**(3,330,673)**		(9,108,650)
Retirement of other assets		**–**		(556,573)
Donations (1)		**–**		(305,753)
		(43,623,241)		(52,147,209)
	$	**3,257,055**	$	11,618,586

(1) In 2012 includes donation made by Telefónica Móviles Colombia S.A. (absorbed entity) prior to the merging by absorption.

28. Shareholders, Related Parties and Associated Companies

The following is a summary of assets and liabilities at December 31 of the Company's transactions carried out during the period from January 1 to December 31 with shareholders:

a) Shareholders

	Accounts Receivable				Accounts Payable			
		2013		2012		2013		2012
Domestic:								
Olympic Ltda. (in liquidation)	**$**	**2,389,973**	$	2,395,627	**$**	**–**	$	–
Terra Networks Colombia S.A.		**301,406**		460,919		**5,098,492**		1,915,591
Total domestic	**$**	**2,691,379**	$	2,856,546	**$**	**5,098,492**	$	1,915,591
Foreign:								
Telefónica Internacional S.A.U		**316,104**		635,646		**1,050,119**		11,145,819
Telefónica S.A.		**6,852**		284,132		**23,403,731**		21,093,660
Total foreign		**322,956**		919,778		**24,453,850**		32,239,479
Total shareholders	**$**	**3,014,335**	$	3,776,324	**$**	**29,552,342**	$	34,155,070

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

The following is a summary of assets and liabilities at December 31 of the Company's transactions carried out during the period from January 1 to December 31 with related parties:

b) Related Parties

	Accounts Receivable 2013	Accounts Receivable 2012	Accounts Payable 2013	Accounts Payable 2012
Domestic				
Tiws Colombia S.A.	**$ 16,548,053**	$ 7,572,633	**$ 35,928,735**	$ 14,830,156
Wayra Colombia S.A.S.	**188,520**	–	**52,312**	4,278
Fundación Telefónica	**–**	–	**1,088**	–
Total domestic	**$ 16,736,573**	$ 7,572,633	**$ 35,982,135**	$ 14,834,434
Foreign:				
Telcel Venezuela	**$ 17,837,221**	$ 6,224,309	**$ 751,720**	$ 461,534
Otecel S.A.	**4,079,102**	1,785,716	**180,457**	377,566
Telefónica Móviles España	**1,263,996**	3,076,028	**830,754**	4,378,890
Telefónica de España	**1,244,011**	1,205,523	**465,413**	415,102
Telefónica Digital España S.A.	**3,223,544**	–	**130,106**	–
Telefónica Internacional Usa Inc.	**1,503,309**	1,212,182	**1,140,162**	1,297,286
Tiws S.L Spain.	**1,629,233**	644,879	**12,708,878**	12,403,875
Telefónica 02 Germany GMBH CO	**18,662**	646,640	**81,749**	69,847
Telefonica Móviles México	**63,109**	670,745	**822,312**	874,472
Telefonica 02 UK LTD	**111,616**	571,602	**38,874**	377,679
Telefónica del Peru S.A.	**54,588**	474,726	**328,450**	561,614
Telefónica de Argentina S.A.	**369,651**	430,493	**471,519**	301,849
Telefónica Móviles Panama	**660,590**	339,110	**196,796**	238,720
Telefónica Móviles Chile	**332,904**	332,374	**139,004**	200,001
Telefónica Mundo Chile S.A.	**85,222**	234,847	**221,543**	261,031
Telefónica Móviles Argentina	**218,943**	216,928	**138,808**	156,237
Telefónica Móviles Peru	**143,023**	140,328	**294,190**	288,438
Telefónica 02 Czech Republic	**4,178**	146,687	**7,920**	6,064
TLD Puerto Rico	**154,761**	62,871	**56,280**	4,795
Telesp Fija	**238,945**	41,344	**2,869,535**	2,781,143
Telefónica Móviles Guatemala	**14,858**	31,813	**75,377**	85,509
Telefónica Móviles del Uruguay	**9,981**	22,805	**11,251**	14,236
Terra México	**14,867**	13,644	**–**	–
Telefónica Móviles el Salvador	**20,948**	13,594	**45,364**	47,210
Telefónica de Costa Rica	**17,349**	10,334	**29,783**	38,470
Telefónica Móviles Nicaragua	**3,937**	5,704	**8,818**	7,660
Telefónica 02 Ireland Ltd.	**561**	–	**19,746**	30,845
Pegaso PCS SA de CV	**47,891**	–	**–**	–

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

b) Related Parties (continued)

	Accounts Receivable		Accounts Payable	
	2013	**2012**	**2013**	**2012**
Foreign:				
Grupo de Telecom Mexicana	**19,172**	–	**201,639**	87,875
Telefónica Centroamérica S.A	**33,467**	–	**–**	–
Telefónica Chile Servicios Corporativos	**96,926**	–	**–**	–
Vivo S.A.	**–**	369,078	**–**	252,215
Telefónica Global Application	**–**	403,106	**–**	–
T–Gestiona Chile	**–**	–	**283,664**	165,768
Telefónica Investigación y Desarrollo	**–**	–	**191,058**	229,978
Telefónica Compras Electrónica	**–**	–	**3,520,394**	2,574,056
Telefónica Ingeniería Seguridad	**–**	–	**1,205,026**	1,574,608
Telefónica Servicios de Música	**–**	–	**259,911**	227,521
Telefónica Móviles Soluciones y Aplicaciones	**–**	–	**5,006,948**	7,718,755
Media Networks Latín América S.A.C	**–**	–	**3,701,488**	2,842,038
Televisión Federal S.A.	**–**	–	**20,584**	16,804
Telefónica Learning Service S.L.U.	**–**	–	**179,766**	51,275
Telefónica Global Technology	**–**	–	**8,593,808**	7,573,227
Telefónica 02 Eslovaquia SRO	**–**	–	**3,177**	494
Telefónica Soluciones Informáticas	**–**	–	**608,209**	–
Total foreign	**33,516,565**	19,327,410	**45,840,481**	48,994,687
Total related parties	**$ 50,253,138**	$ 26,900,043	**$ 81,822,616**	$ 63,829,121

The following is a summary of assets and liabilities at December 31 of the Company's transactions carried out during the period from January 1 to December 31 with associated companies:

c) Associated Companies

	Accounts Receivable		Accounts Payable	
	2013	**2012**	**2013**	**2012**
Domestic:				
Telefónica Factoring Colombia S.A.	**$ 222,782**	$ 181,192	**$ –**	$ –
Foreign:				
Telecom Itália S.P.A	**391,286**	758,108	**6,038,233**	67,953
Telecom Italia Sparkle S.P.A	**3,455,345**	497,819	**–**	47,416
Tim Celular S.A.	**126,419**	467,178	**118,386**	–
Total foreign	**3,973,050**	1,723,105	**6,156,619**	115,369
Total associated companies	**$ 4,195,832**	$ 1,904,297	**$ 6,156,619**	$ 115,369

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

c) Associated Companies (continued)

Below is a summary at December 31 of the Company's income, costs and expenses, and accounting notes made for transactions during the period from January 1 to December 31 with shareholders, related parties and associated companies:

a) Shareholders

	Income		Costs and Expenses	
	2013	**2012**	**2013**	**2012**
Domestic:				
Terra Networks Colombia S.A.	**$ 353,953**	$ 275,239	**$ 5,309,498**	$ 4,519,340
Foreign:				
Telefónica S.A.	**(10,439)**	6,545	**43,616,293**	42,207,521
Telefónica Internacional S.A.U.	**672,514**	(2,292)	**861,953**	(4,427,259)
Total foreign	**662,075**	4,253	**44,478,246**	37,780,262
Total shareholders	**$ 1,016,028**	$ 279,492	**$ 49,787,744**	$ 42,299,602

b) Related Parties

	Income 2013	Income 2012	Costs and Expenses 2013	Costs and Expenses 2012
Domestic:				
Tiws Colombia S.A.	**$ 13,751,377**	$ 12,406,315	**$ 31,320,520**	$ 23,188,396
Wayra Colombia S.A.S.	**432,008**	85,023	**52,312**	–
Fundacion Telefonica	**–**	–	**20,600**	–
Atento Colombia S.A.	**–**	1,548,684	**–**	35,062,999
Total domestic	**14,183,385**	14,040,022	**31,393,432**	58,251,395
Foreign:				
Telcel Venezuela	**14,281,364**	7,216,202	**1,063,119**	1,099,872
Otecel S.A.	**3,898,638**	3,559,744	**670,269**	1,272,596
Telefónica Móviles España	**2,410,914**	2,594,620	**3,439,712**	1,583,628
Telefónica Digital España S.A.	**2,721,336**	–	**130,105**	–
Telefónica de España	**2,747,260**	4,136,048	**1,374,041**	1,473,865
Telesp Fija	**1,033,648**	147,859	**730,259**	3,339,631
Telefónica Móviles Chile	**1,131,904**	571,024	**458,258**	317,553
Telefónica Móviles Panama	**1,111,022**	999,504	**716,430**	418,661
Telefónica Móviles Argentina	**649,557**	517,880	**337,791**	276,630
Tiws S.L Spain.	**852,401**	590,310	**13,697,798**	12,806,562
Telefónica 02 UK LTD	**422,589**	(618,529)	**(152,243)**	(145,927)
Telefonica Móviles Peru	**359,745**	236,532	**945,138**	591,522
Telefónica USA	**386,401**	467,100	**654,376**	337,700
Telefónica de Argentina	**365,477**	720,169	**355,796**	278,019

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

b) Related Parties (continued)

	Income		Costs and Expenses	
	2013	**2012**	**2013**	**2012**
Foreign:				
Telefónica Móviles Mexico	**229,007**	135,770	**1,019,956**	631,688
TLD Puerto Rico	**200,235**	168,662	**60,474**	28,276
Telefónica Mundo Chile S.A.	**170,069**	505,994	**633,259**	222,025
Telefónica Móviles del Uruguay	**57,626**	53,390	**43,615**	27,364
Telefónica 02 Germany GMBH CO	**62,656**	(57,075)	**234,965**	(131,374)
Telefónica Móviles Guatemala	**55,274**	105,341	**174,361**	149,474
Telefónica 02 Ireland Ltd.	**17,211**	(186,657)	**1,815**	(852)
Telefónica Móviles el Salvador	**45,576**	21,065	**99,581**	57,185
Telefónica de Costa Rica	**56,070**	10,353	**228,466**	39,251
Telefónica 02 Czech Republic S.	**8,430**	(9,356)	**16,239**	(8,443)
Telefónica Móviles Nicaragua	**11,114**	8,014	**27,102**	13,682
Telefónica del Peru	**(86,263)**	115,065	**402,830**	5,197
Grupo de Telecom Mexicana	**19,172**	–	**441,008**	–
Telefónica Centroamérica S.A	**32,695**	–	**–**	–
Telefónica Chile Servicios Corporativos	**94,689**	–	**–**	–
Pegaso PCS SA de CV	**48,294**	–	**–**	–
Telefónica Global Service GMBH	**–**	–	**39,538**	109,596
Atento España	**–**	1,087,353	**–**	–
Vivo S.A.	**–**	611,395	**–**	383,863
T– mAS	**–**	–	**2,964,825**	2,989,613
T–Gestiona Chile	**–**	–	**281,808**	165,769
Telefónica Investigación y Desarrollo	**–**	–	**-42,000**	–
Telefónica Compras Electrónicas	**–**	–	**5,401,467**	3,485,248
Telefónica Ingeniería Seguridad	**–**	–	**403,766**	296,522
Telefónica Servicios de Música	**–**	–	**724,802**	711,738
Media Networks Latín América S.A.C	**–**	–	**13,743,105**	11,913,800
Telefónica Global Technology	**–**	–	**29,290,307**	24,076,578
Televisión Federal S.A.	**–**	–	**62,413**	64,745
Telefónica Learning Service S.L.U.	**–**	–	**188,534**	52,207
Telefónica Global Application	**–**	–	**–**	(459,860)
Telefónica 02 Eslovaquia SRO	**–**	–	**8,352**	506
Tiws America	**–**	–	**4,053,936**	4,053,934
Total foreign	**33,394,111**	23,707,777	**84,925,373**	72,528,044
Total related parties	**$ 47,577,496**	$ 37,747,799	**$ 116,318,805**	$ 130,779,439

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

Below is a summary at December 31 of the Company's income, costs and expenses, and accounting notes made for transactions during the period from January 1 to December 31 with associated companies:

c) Associated Companies

	Income		Costs and Expenses	
	2013	**2012**	**2013**	**2012**
Domestic:				
Telefónica Factoring Colombia S.A.	**$ 188,083**	$ 2,002,450	**$ –**	$ –
Foreign:				
Tim Celular S.A.	**400,678**	492,991	**312,956**	–
Telecom Italia S.P.A.	**264,801**	–	**2,340,635**	384,202
Telecom Italia Sparkle S.P.A.	**2,991,816**	(15,396)	**–**	1,797,612
Total foreign	**3,657,295**	477,595	**2,653,591**	2,181,814
Total associated companies	**$ 3,845,378**	$ 2,480,045	**$ 2,653,591**	$ 2,181,814

29. Contingencies

Legal Processes

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

At December 31 processes in progress and reported as possible contingencies are detailed below:

Type of Action	2013	2012
Short-term *(Note 16)*		
Petitions, complaints and claims	**$ 11,992,956**	$ 4,962,112
Permanent *(Note 16)*		
Tax processes (1)	**2,769,202**	2,672,272
Labor	**2,703,053**	2,091,141
Administrative investigation (2)	**1,096,177**	1,698,116
Executive processes	**746,858**	746,858
Direct compliance repair	**482,393**	482,394
Ordinary civil lawsuits	**408,236**	451,430
Administrative investigation	**201,532**	192,449
Disloyal competence	**4,884**	804,884
Incentives and popular actions	**1,000**	85,004
Arbitration	**–**	1,200,000
	8,413,335	10,424,548
	$ 20,406,291	$ 15,386,660

(1) Processes due to presumed incompliance of legal regulations.
(2) Processes with various municipalities concerning the appraisal computation of tax for public lighting.

30. Commitments

Material Contracts

Considering the materiality of the contracting figures, we detail below the contracts in force and pending execution at December 31, 2012 considered of the greatest significance:

Contractor	Contract Object	Termination Date	Contract Value (In thousands)
Seguridad Atlas LTDA.	Provide private surveillance services for goods, infrastructure and facilities used by the contractor.	2015-10-31	$ 143,676,451
Icotec Colombia S.A.S.	Perform all construction, installation and maintenance activities of the external plant networks and all activities associated in zone 5.	2016-12-31	141,859,213
ATC Sitios de Colombia S.A.S.	(i) Grant the rights of use to atc of the towers and (ii) deliver in commodatum or loan of use of the areas for a term of 13 years.	2023-06-30	134,703,313
ATC Sitios de Colombia S.A.S.	Rent spaces on site.	2023-06-30	133,505,060
ZTE Colombia S.A.S.	Permanently provide the integral maintenance level 1 service on the network's site of the contractor's telecommunications network.	2016-07-31	130,225,318
FSCR Ingeniería LTDA.	Integral maintenance for activities associated with the external plant and customer's loop.	2014-01-31	122,660,709
Intelsat Global Sales & Marketing Ltd	Satellite capacity service.	2018-08-31	118,308,341
Eficacia S.A.	Provide integral personalized attention services to clients of Colombia telecomunicaciones.	2016-05-31	100,741,617
Huawei Technologies Colombia SAS.	Letter to adhere to stage 8 Huawei ran 3g and packet core (equipment).	2013-12-31	92,299,169
Gas Natural Fenosa Telecomunicaciones Colombia S.A.	The contractor grants to the contracting party the irrevocable right of use (iru) of eight threads of optical fiber for telecommunications.	2032-11-14	85,254,424
FSCR Ingeniería LTDA.	The object of this contract is the continuous sale by the contracting Company and in favor of Colombia Telecomunicaciones S.A. E.S.P. of the service "customer's loop".	2016-12-31	82,874,608
Actividades de Instalaciones y Servicios Cobra S.A.	The continued integral maintenance provided by the collaborator company in favor of Colombia Telecomunicaciones SA E.S.P. of activities associated with the external plant and customer's loop.	2014-01-31	74,734,616
Telefónica International Wholesale Services Colombia Sa - Tiws Colombia	Contract the rental capacity of internet access (submerged plant, backhaul and ip port) with a capacity of 1stm-16 (2,5gbps), to access the internet network over the cable sam-1 system.	2014-08-17	66,822,380

30. Commitments (continued)

Material Contracts (continued)

Contractor	Contract Object	Termination Date	Contract Value (In thousands)
Atento Colombia S.A.	Provide multi-channel customer service via telephone call center, web fax, chat, e-mail, sms (short message services) for client back office (in and/or outbound campaigns) and vendors (commercial campaign).	2014-12-31	65,541,152
Ericsson de Colombia S.A.	Provide operation and maintenance services of mobile telephony base stations and transmission nodes.	2015-12-31	64,256,603
Publicis Groupe Media S.A.	Provide media integral agency services that comprise (i) investigation studies and media communication analysis; (ii) global negotiation with communication media; (iii) technical advisory of media plan; and (iv) design, execution and follow-up work of the contactor's advertising campaigns.	2013-12-31	62,472,304
Operación y Gestión Integral – Opegin LTDA	Continued integral maintenance provided by the collaborator Company and in favor of Colombia Telecomunicaciones SA E.S.P. for activities associated with the external plant and customer's loop.	2014-01-31	61,125,665
Cables de Energía y de Telecomunicaciones S.A Centelsa	Provide copper self-supported cable, filled and gray inside.	2014-03-31	56,826,587
Cisco Systems INC.	Procurement agreement for Cisco client's goods and services.	2013-12-31	52,746,155
Media Networks Latin America SAC	Data processing service, as well as satellite service required to render the aforementioned service.	Undetermined	51,171,062
Publicis Groupe Media S.A.	Integral media agency services that comprises regularly provide and install on site and the amounts of mobile telephony of the nodes required implementing 3g-utran.	2013-12-31	50,330,044
Ericsson de Colombia S.A.		2015-07-31	50,303,346
Digitex Internacional LTDA.	Provide contact center services for all operations detailed in "operations annex".	2014-12-31	49,622,158
Atento Colombia S.A.	Provide contact center services for all operations detailed in "operations annex".	2014-12-31	48,288,534
Accenture LTDA.	Development and maintenance services of the applications corresponding to the nationwide and regional billing block in the applications (application management-am mode.	2015-03-31	46,361,848
Energía Integral Andina S.A.	Rendering portable services by Energía Integral Andina S.A. to subscribers, through the submarine cable system of optical fiber known as San Andres Islas– Tolú, Colombia	2026-10-27	45,585,549
Huawei Technologies Colombia S.A.S.	Purchase of tablets	2017-06-30	44,810,915
Inversiones Coopservimos S.A.	Perform every construction, installation and maintenance of the external plant networks.	2013-12-31	35,103,670

30. Commitments (continued)

Contract Materials (continued)

Contractor	Contract Object	Termination Date	Contract Value (In thousands)
Centro Interactivo de Crm Sa- Interactivo Contact Center S.A.	Provide contact center services for all operations detailed in "operations annex".	2014-12-31	34,135,909
Huawei Technologies Colombia S.A.S.	Provide operating and maintenance services of the mobile telephony base station and transmission nodes nationwide for the exploitation of mobile telephony services.	2015-12-31	33,779,591
Tempo Express LTDA.	Provide operating and maintenance services of the mobile telephony base station and transmission nodes nationwide for the exploitation of mobile telephony services.	2013-12-31	31,587,142
Samsung Electronics Colombia S.A.	Terminal supplies 1q-2014.	2014-03-31	31,458,775
Telefónica International Wholesale Services Colombia S.A. - Tiws Colombia	Cable to operate and maintain submarine cables sam-1 acquired from TIWS.	2031-12-31	30,966,181
Digitex Internacional LTDA.	Provide multichannel attention service via call center, telephone, web fax, chat, e-mail, sms (short message services) for customers' back office (in and/or outbound campaigns) and vendors (commercial campaign).	2014-12-31	30,720,038
Accenture LTDA.	Provide development and maintenance of applications for the post sale of Block ii	2017-03-30	30,031,163
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.	2013-12-31	29,867,050
New Skies Satelites Nv	Rent of special band segment.	2014-01-31	29,720,057
Centro Interactivo De Crm S.A.- Interactivo Contact Center S.A.	Provide multichannel customer service center – via telephone call center, web fax, chat, e-mail, sms (short message services) for client back office (campaigns in and/or outbound)	2014-12-31	29,665,419
Ml Colombia S.A.	Provide through call centers services such as customer service line and service support of mobile telephony sales	2014-12-31	29,583,203
Emergia Customer Care	Provide contact service centers in all operations described in the "operations annex".	2014-12-31	28,560,496
Cables de Energía y de Telecomunicaciones S.A. Centelsa	Provide telephone wire for interior and exterior use, to support activities of a) operation and maintenance of the external network and b) expansion of the telephone service.	2014-03-31	27,736,564

30. Commitments (continued)

Contract Materials (continued)

Contractor	Contract Object	Termination Date	Contract Value (In thousands)
Ericsson de Colombia SA	Provides goods and services of rnc's equipment and carrier expansion over nodes for enlargements of the data capacity and quality service over the Ericsson Network.	2013-12-31	26,942,491
Everis Colombia LTDA	Software services of the i block by the operators of the Telefonica Group in Latin America.	2017-03-30	26,543,546
Oesia Networks Sl Sucursal Colombia	Provide technical specialized performance services of the systems, networks, products and telecommunication services to clients.	2016-10-31	26,356,744
Suppla SA	Provide services of logistic operator.	2014-03-31	24,949,009
Samsung Electronics Colombia SA	Supply terminals 4Q-2013.	2013-12-31	24,076,704
Internexa S.A. E.S.P.	Right to provide the capacity of transmitting information.	2014-03-28	23,888,611
Oracle Colombia LTDA	Review of Oracle Colombia needs ula oracle capex.	2014-12-31	23,169,618
Energía Empresarial de la Costa Sa E.S.P.	Supply unregulated energy nationwide.	2014-12-31	22,436,722
Hewlett Packard Colombia LTDA	Provide supporting services for all workplace environment equipment	2013-12-31	21,629,231
Apple INC	Supply terminals 4q-2013	2013-12-31	21,157,249
Ibm de Colombia & Cia S.C.A.	Blocks 2 and 3 for operation services of the data processing centers	2016-06-30	20,485,299

Contracts for the Exploitation of Goods, Assets and Rights

The agreement with the greatest incidence on the financial statements is the exploitation agreement whereby the payment of the compensation to the extinct Empresa Nacional de Telecomunicaciones and other Teleasociadas (currently, autonomous equity PARAPAT) is made through for the use and enjoyment of goods, assets and rights which are the object of the exploitation contract that were identified as part of the provision of services by Colombia Telecomunicaciones S.A. E.S.P.., which recorded the compensation as other non-operating expenses, in compliance with Resolution 517 of December 21, 2004, issued by the Contaduría General de la Nación.

As of May 1 it accounts for the compensation in cost of sales and rendering of services considering the stipulations of the SSPD Resolution No. 33635 of December 28, 2005.

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

4.1. Pay the compensation referred to in Clause 14 of the Exploitation contract to Empresa Nacional de Telecomunicaciones and Teleasociadas (or, in the future and, as required, to the autonomous equity (PARAPAT), or its assignees), as the case may be.

4.2. To use in a lucrative, professional and independent manner the goods referred to in the contract

30. Commitments (continued)

Contracts for the Exploitation of Goods, Assets and Rights (continued)

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

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

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

30. Commitments (continued)

Contracts for the Exploitation of Goods, Assets and Rights (continued)

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

When it is reasonably possible to establish a direct relation between the value of the accrued premiums and specific goods, this value will be subtracted from the compensation corresponding to the company that devoted it to the service on June 12, 2003; otherwise, this value will affect determining the operating profit basis. Indemnities in progress and those received for future losses in accordance with the insurance contracts covering the risk of damage, should be devoted to the replacement of the affected good, if possible. Claim procedures to obtain payment of the insurance will be the responsibility of Colombia Telecomunicaciones S.A. E.S.P. If the indemnity amount may not be dedicated to replace the affected good, it will enter to the equity of Empresa Nacional de Telecomunicaciones or of Teleasociadas or PARAPAT, as the case might be.

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

Resources deriving from the loss of profit recognized in accordance with the coverage of insurance under the contract, included in the current insurance, will be in favor of Colombia Telecomunicaciones S.A. E.S.P..

4.10. Administrate, coordinate and continue executing contracts in progress entered into with Empresa Nacional de Telecomunicaciones or Teleasociadas, if there were processes related with such contracts; this obligation will be complied with in coordination with PARAPAT.

4.11 Transfer to Empresa Nacional de Telecomunicaciones and Teleasociadas the resources it had invoiced and collected for the services rendered as of the validity date of the decrees that ordered their liquidation until the date of the contract’s subscription, in the agreed terms.

Rights of Colombia Telecomunicaciones S.A. E.S.P.

In regard to whatever matter that has not yet been provided for by the Law, pursuant to the contract, Colombia Telecomunicaciones S.A. E.S.P. acquires the following rights:

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

The right conferred to Colombia Telecomunicaciones S.A. E.S.P. does not limit the capacity of this Company to expand the telecommunication services or to render additional services allowed by law, or for goods received together with other own or of third parties, for the same purposes.

30. Commitments (continued)

Rights of Colombia Telecomunicaciones S.A. E.S.P. (continued)

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

6.2. Receive from Empresa Nacional de Telecomunicaciones the resources that were dedicated to it and to those referred to in Article 22 of Decree 1616 of 2003 in conformity with Clause 13 of the Exploitation Contract.
6.3. Receive on time the payment for the services referred to in the Exploitation Contract and those agreed to in a separate document that it renders to Empresa Nacional de Telecomunicaciones and to each one of the Teleasociadas.
6.4. PARAPAT will transfer to Colombia Telecomunicaciones S.A. E.S.P., as beneficiary, all assets, goods and rights which are the subject matter of the Exploitation Contract, once the last installment of the compensation has been paid, as established in Clause 13 and 14 of the Exploitation Contract, irrespective of the Pension Liability balance and other Liabilities existing at that date, against the account receivable recorded by Colombia Telecomunicaciones S.A. E.S.P. in respect to the Companies in liquidation.
6.5. Cooperate with the Companies in liquidation in the preparation of the inventory of the goods which are the subject matter of the exploitation contract, as well as in the delivery that materializes the transfer of goods at the end of the Exploitation Contract.

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

Amendment No. 3 to the exploitation contract was signed on March 30, 2012, which purpose is the Nation’s assumption through Ministry of Finance and Public Credit (in 47.9665396%), and by Telefónica Móviles Colombia S.A. (by 52.0334604%) of the unexpired payment obligations that result from Clause 14 of the Exploitation Contract. Likewise, the Restructuring Agreement of the Compensation Installments of the obligations assumed in Amendment No. 3 of the Exploitation Contract was signed to modify the payment amount and term of the Compensation Installments until 2028.

Considering the above, the change of the scheme of the compensation of the Exploitations 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 S.A. E.S.P. once the last compensation installment is paid. According to Amendment No. 2, the compensation value remunerates the use, enjoyment and full exploitation of all the goods that are the object of the Exploitation Contract, without having to replace goods, assets or rights.

30. Commitments (continued)

Allegiance with Telefónica Móviles Colombia S.A. (Absorbed Entity)

Colombia Telecomunicaciones S.A. E.S.P. and Telefónica Móviles Colombia S.A. had a strategic allegiance that consisted in jointly exploiting commercial businesses. This contract was finished due to the merging effect from the merging absorption of the Company with Telefónica Móviles Colombia S.A.

Management Fee Contract

The Company signed a contract with Telefónica Internacional S.A.U. which purpose was to carry out procedures intended for the improvement of the Company's integral performance, productivity and competitiveness, through consistent technical services and assistance. According to the terms and conditions of this contract, Telefónica Internacional S.A. in exchange, will have the right to perceive a variable remuneration over the operating results before depreciation and taxes, depending on the compliance of the goal of operating results over income. The performance contract ended as a result of the Company's merging with Telefónica Móviles Colombia S.A. Amendment No. 1 of the Master Investment Agreement entered into on March 30, 2012 for the Shareholders and Colombia Telecomunicaciones, which in Clause 15 establishes that the Performance Contract will end on the date Amendment No. 1 is enforced, which occurred on July 6, 2012, the date the merging was formalized by means of the public deed registered at the Bogota's Chamber of Commerce commercial register.

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.

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.

30. Commitments (continued)

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 S.A.S. (hereinafter "ATC") and which objectives were:

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

The contract's object includes: (i) Colombia Telecomunicaciones S.A. E.S.P., 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 S.A. E.S.P. receives from PARAPAT the transfer of active goods and rights which are the object of the Exploitation Contract and (ii) grants under *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 S.A. E.S.P. and/or of the companies of the Grupo Telefónica or a third party in accordance with a current contract at the date of the contract. Colombia Telecomunicaciones S.A. E.S.P. should pay a monthly rent as any other third party operator, at market price; this contract will have an irrevocable initial term of 8 years, which will be automatically renewed for 5 years and thereafter for 2 additional successive years. The estimated value of this contract amounts to $124,140,900.

c) Commodatum contract over Land

By means of this contract, Colombia Telecomunicaciones S.A. E.S.P. 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.

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 COLOMBIA SAS, notifying that the pledge contract was in force until July 6, 2012 as defined in the contracts.

30. Commitments (continued)

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 S.A.S. (hereinafter "ATC") that were a) Granting of rights of use and enjoyment and Other Agreements; b) Space Leasing Contract in Towers; and in the same general terms agreed to in 2010.

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

The object of the contract includes: (i) Colombia Telecomunicaciones S.A. E.S.P., grants to ATC the rights to use the Sites stated in the Annex of this contract and is committed to transfer its property, once Colombia Telecomunicaciones S.A. E.S.P. receives from PARAPAT the transfer of active goods and rights that are the subject matter of the Exploitation Contract and (ii) grants under 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. E.S.P. and/or Grupo Telefónica or any other third party in accordance with a current contract. Colombia Telecomunicaciones S.A. E.S.P. should pay a monthly rent as any other third party operator at market price; this contract has an initial minimum irrevocable term of 8 years, which will be automatically renewed for 5 years and thereafter for periods of 2 additional years.

c) Commodatum contract over Land.

By means of this contract, Colombia Telecomunicaciones S.A. E.S.P. 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 restitute 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.

31. Financial Indicators

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

Liquidity Indexes

	2013	2012
a. Current ratios		
$\frac{\text{Current assets}}{\text{Current liabilities}}$	0.44	0.49

31. Financial Indicators (continued)

Liquidity Indexes (continued)

	2013	2012
b. Inventory acid tests		
Current assets – Inventories / Current liabilities	0.40	0.46
c. Debtors acid tests		
Current assets – Debtors / Current liabilities	0.12	0.13
d. Working Capital variance (in millions)		
(Current assets variance – Current liabilities variance)	(226,693)	1,756,868
Indebtedness Indexes		
a. Total indebtedness		
Total liabilities / Total assets	83%	76%
b. Short-term indebtedness		
Current liabilities / Total liabilities	37%	34%
c. Total leverage		
Total liabilities / Shareholder's equity	474%	321%
d. Financial leverage		
Liabilities with financial entities / Shareholder's equity	308%	192%
Activity Indexes		
a. Accounts receivable turn-over		
Net operating income / Average of operating accounts receivable	6.52	4.95 times

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

Notes to the Financial Statements (continued)

31. Financial indicators (continued)

Activity Indexes (continued)

	2013	2012
b. Inventories turn-over		
Selling costs / Average inventories	6.65	4.82
c. Turn-over of fixed assets		
Net operating income / Fixed assets	0.59	0.61
d. Operating assets turn-over		
Net operating income / Gross operating assets	2.92	2.95

Solvency or Soundness Indexes

	2013	2012
a. Solvency or soundness indexes		
Total assets / Total liabilities	1.21	1.31

	2013	2012
EBITDA (a)		
Net loss	**$ (262,012,731)**	$ (280,568,105)
Add:		
Depreciations and amortizations	**1,216,933,969**	1,136,101,293
Financial expenses, net	**332,829,648**	370,191,030
Income tax	**5,420,352**	276,606
EBITDA	**1,293,171,238**	1,226,000,824
Add:		
Obligation payable PARAPAT	**148,463,768**	131,388,560
Adjusted EBITDA (b)	**$ 1,441,635,006**	$ 1,357,389,384

(a) EBITDA means: Income or loss before the depreciation and amortization, financial expenses, net and income tax.
(b) Adjusted EBITDA: Corresponds to EBITDA less the Parapat compensation

Other Financial Information	**2013**	**2012**
EBITDA margin (a)	30,78%	30,66%
Adjusted EBITDA margin (b)	34,32%	33,94%

(a) Represents EBITDA divided in operating income.
(b) Represents adjusted EBITDA divided in operating income.

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