Axtel, S. A. B. de C. V. and Subsidiaries
(Subsidiary of Alfa, S. A. B. de C. V.)

Consolidated Financial Statements as of and for the Years Ended December 31, 2018 and 2017, and Independent Auditors' Report Dated January 31, 2019

Axtel, S. A. B. de C. V. and Subsidiaries
(Subsidiary of Alfa, S. A. B. de C. V.)

Independent Auditors' Report and Consolidated Financial Statements as of and for the years ended December 31, 2018 and 2017

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Independent Auditors' Report to the Board of Directors and Shareholders of Axtel, S. A. B. de C. V.

Opinion

We have audited the consolidated financial statements of Axtel, S. A. B. de C. V. and Subsidiaries (the "Company"), which comprises the consolidated statements of financial position as of December 31, 2018 and 2017, and the consolidated statements of income, the consolidated statements of comprehensive income, the consolidated statements of changes in shareholders' equity and the consolidated statements of cash flows for the years then ended, as well as explanatory notes to the consolidated financial statements which includes a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2018 and 2017, as well as its consolidated financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the Code of Ethics issued by the Mexican Institute of Public Accountants ("IMCP Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and with the IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the matters described below are the key audit matters which should be communicated in our report.

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Assessment of impairment of long-lived assets and goodwill

As described in Note 3 k) and 11 to the consolidated financial statements, the Company performs annual impairment tests to the balance of goodwill, intangible assets with an indefinite useful life and of the property, plant and equipment.

The Company's management utilizes significant judgment in determining the assumptions and inputs used to estimate the recoverable value of its cash generating units ("CGUs") for purposes of its impairment tests given the significance of the goodwill and intangible asset balances as of December 31, 2018 and 2017, of $1,405 and $1,509 million, respectively, as well as the property, plant and equipment balance of $16,106 and $19,276 million, respectively, on the Company's consolidated financial.

As part of our audit, we focused our tests on the following significant assumptions that the Company considered when estimating future projections to assess the recoverability of goodwill, intangible assets and properties, plant and equipment: long-term growth rate of the industry, discount rate, estimated revenues from different segments, expected gross and operating profit margin. With support from expert appraisers, our procedures, among others, included:

- Review the models applied to determine the recoverable value of the intangible assets and methods used for valuing assets with similar characteristics.
- Perform tests on the completeness, accuracy and reasonableness of financial projections by comparing them to the business performance and historical trends, verifying the explanations of the variations with management. In addition, we assessed the internal processes used by management to make projections, including timely monitoring and analysis by the Board of Directors.
- Analyze the significant assumptions used in the model for calculating the recoverable value of CGUs compared to those commonly used in the industry in which the Company operates, including the long-term growth rate, gross and operating margins and the discount rate determined based on comparable companies in the industry.
- Evaluate the independent assessment of discount rates used and the methodology used in the preparation of the model of the impairment test. In addition, we tested the integrity and accuracy of the impairment model and the book value of CGUs.
- To determine the CGUs, we considered the Company's operating cash flows, synergies that have been generated in the business, the market segments where they operate and the different lines of goods and services that they offer their clients.
- Evaluate the independent assessment of the sensitivity calculations for all CGUs, calculating the degree to which the assumptions used will need to be changed, and the likeliness these changes may arise.

The results of our procedures were satisfactory, and we believe the assumptions used by management in the impairment test, are reasonable.

Assessment of the recoverability of deferred income tax assets

The Company records deferred income tax assets derived from tax losses. Management performed an assessment of the probability of recovering the tax losses carryforward to support the deferred tax assets recognized on its consolidated financial statements.

Due to the significance of the deferred income tax asset balance generated by tax losses amounting to $2,873 and $3,748 million, respectively as of December 31, 2018 and 2017, as well as the significant judgments and estimates to determine future projections of the Company's taxable income, we focused on this account balance and performed, among others, the following procedures:

- Verify the reasonableness of the projections used to determine future taxable income.
- Review the projections used by comparing them to the business performance and historical trends, verifying the explanations of the variations with management.
- With the support of internal experts, we assessed the processes used to determine the projected taxable income, and the assumptions used by management in preparing tax projections.

The results of our audit procedures were satisfactory. The Company's accounting policy for the recording of deferred taxes, as well as the detail of their disclosure are included in Notes 3 p) and 18, respectively, to the accompanying consolidated financial statements.

Information other than the Consolidated Financial Statements and Auditor's Report thereon

Management is responsible for the other information presented. The other information includes two documents, the Annual Stock Exchange Filing and the information that will be incorporated in the Annual Report that the Company must prepare pursuant to the General Provisions Applicable to Issuers and other Participants in the Mexican Stock Exchange and file it with the National Banking and Securities Commission ("CNBV" for its acronym in Spanish). The Annual Stock Exchange Filing and the Annual Report are expected to be made available to us after the date of this auditors' report.

Our opinion of the consolidated financial statements does not cover the other information and we do not express any form of assurance over it.

In connection with our audit of the consolidated financial statements, our responsibility will be to read the other information, when available, and in doing so, consider whether the other information contained therein is materially inconsistent with the consolidated financial statements or with our knowledge obtained in the audit, or otherwise appears to contain a material error. If based on the work we have performed, we conclude that there is a material misstatement therein, we are required to communicate the matter in a statement in the Annual Report required by the CNBV and those charged with governance in the Company.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's consolidated financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the Company and subsidiaries audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member of Deloitte Touche Tohmatsu Limited

C. P. C. Hector García Garza
Monterrey, Nuevo León México
January 31, 2019

Axtel, S. A. B. de C. V. and Subsidiaries
(Subsidiary of Alfa, S. A. B. de C. V.)

Consolidated Statements of Financial Position

As of December 31, 2018 and 2017
Thousands of Mexican pesos

	Note	2018	2017
Assets			
Current assets:			
Cash and cash equivalents	6	$ 2,249,155	$ 1,257,803
Trade and other accounts receivable, net	8	3,593,881	3,544,102
Inventories	9	104,802	188,885
Financial instruments	4	129,075	164,278
Prepayments		546,064	485,732
Derivative financial instruments	4	5,898	61,913
Long-lived assets held for sale		315,053	-
Total current assets		6,943,928	5,702,713
Non-current assets:			
Restricted cash	7	93,908	161,955
Property, plant and equipment, net	10	16,105,524	19,275,810
Goodwill and intangible assets, net	11	1,405,387	1,508,512
Deferred income taxes	18	2,873,075	3,747,711
Other non-current assets	12	716,287	357,073
Non-current derivative financial instruments	4	17,693	-
Total non-current assets		21,211,874	25,051,061
Total assets		$28,155,802	$30,753,774
Liabilities and Shareholders' Equity			
Current liabilities:			
Debt	16	$ 465,828	$1,378,934
Trade and other accounts payable	13	7,423,978	6,095,724
Provisions	14	312,384	117,908
Deferred income	15	536,452	312,121
Derivative financial instruments	4	39,258	-
Total current liabilities		8,777,900	7,904,687
Non-current liabilities:			
Debt	16	15,156,918	19,043,736
Other non-current accounts payable	13	4,033	713,602
Employee benefits	17	592,037	588,696
Deferred income taxes	18	4,007	10,648
Total non-current liabilities		15,756,995	20,356,682
Total liabilities		24,534,895	28,261,369
Shareholders' equity:			
Controlling interest:			
Capital stock	19	464,368	464,368
Additional paid-in capital		159,551	159,551
Accrued earnings		3,013,954	1,919,276
Other comprehensive loss		(16,972)	(50,796)
Total controlling interest		3,620,901	2,492,399
Non-controlling interest		6	6
Total shareholders' equity		3,620,907	2,492,405
Total liabilities and shareholders' equity		$28,155,802	$30,753,774

The accompanying notes are an integral part of these consolidated financial statements.

Axtel, S. A. B. de C. V. and Subsidiaries
(Subsidiary of Alfa, S. A. B. de C. V.)

Consolidated Statements of Income

For the years ended December 31, 2018 and 2017
Thousands of Mexican pesos

	Note	2018	2017
Revenues	21	$12,788,484	$12,544,101
Cost of sales		(6,290,978)	(6,221,850)
Gross profit		6,497,506	6,322,251
Administration and selling expenses		(6,008,955)	(5,905,193)
Other income, net	23	206,929	518,298
Operating income		695,480	935,356
Financial income	24	52,129	56,698
Financial expenses	24	(1,868,618)	(1,646,532)
Exchange fluctuation gain, net	25	186,888	648,280
Gain on changes in fair value of financial instruments		(35,202)	27,052
Financial result, net		(1,664,803)	(914,502)
(Loss) income before taxes		(969,323)	20,854
Income taxes	18	(37,338)	(287,544)
Loss from continuing operations		(1,006,661)	(266,690)
Discontinued operations	20	2,101,339	328,862
Net consolidated income		$ 1,094,678	$ 62,172
Income attributable to:			
Controlling interest		$ 1,094,678	$ 62,171
Non-controlling interest		-	1
		$ 1,094,678	$ 62,172
Loss per basic and diluted share from continuing operations		(0.050)	(0.014)
Profit per basic and diluted share from discontinued operations		0.104	0.017
Profit per basic and diluted share		0.054	0.003
Weighted average common outstanding shares (thousands of shares)		20,249,227	19,739,584

The accompanying notes are an integral part of these consolidated financial statements.

Axtel, S. A. B. de C. V. and Subsidiaries
(Subsidiary of Alfa, S. A. B. de C. V.)

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017
Thousands of Mexican pesos

	Note	2018	2017
Net consolidated income		$1,094,678	$62,172
Other comprehensive income for the year:			
Items that will be reclassified to the consolidated statement of income:			
Effect of currency translation	18	(86)	(1,212)
Fair value of derivative financial instruments, net of taxes		(8,370)	-
Items that will not be reclassified to the consolidated statement of income:			
Remeasurements of employee benefits, net of taxes	18	42,280	(7,602)
Total other comprehensive income (loss) for the year		33,824	(8,814)
Total comprehensive income of the year		$1,128,502	$53,358
Attributable to:			
Controlling interest		$1,128,502	$53,357
Non-controlling interest		-	1
Comprehensive income of the year		$1,128,502	$53,358

The accompanying notes are an integral part of these consolidated financial statements.

Axtel, S. A. B. de C. V. and Subsidiaries
(Subsidiary of Alfa, S. A. B. de C. V.)

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2018 and 2017
Thousands of Mexican pesos

	Controlling interest						
	Capital stock	Additional paid- in capital	(Accumulated deficit) retained earnings	Other comprehensive loss	Total controlling interest	Non-controlling interest	Total shareholders' equity
Balances as of January 1, 2017	$10,233,841	$644,710	$(8,436,337)	$ (41,982)	$2,400,232	$ 5	$ 2,400,237
Transactions with shareholders:							
Loss absorption	(9,868,332)	(644,710)	10,513,042	-	-	-	-
Issuance of shares	98,859	159,551	-	-	258,410	-	258,410
Accounts payable to holding company	-	-	(219,600)	-	(219,600)	-	(219,600)
	(9,769,473)	(485,159)	10,293,442	-	38,810	-	38,810
Net consolidated loss	-	-	62,171	-	62,171	1	62,172
Total other comprehensive income for the year	-	-	-	(8,814)	(8,814)	-	(8,814)
Comprehensive loss	-	-	62,171	(8,814)	53,357	1	53,358
Balances as of December 31, 2017	$ 464,368	$159,551	$ 1,919,276	$ (50,796)	$2,492,399	$ 6	$ 2,492,405
Net consolidated income	-	-	1,094,678	-	1,094,678	-	1,094,678
Total other comprehensive income for the year	-	-	-	33,824	33,824	-	33,824
Comprehensive income	-	-	1,094,678	33,824	1,128,502	-	1,128,502
Balances as of December 31, 2018	$ 464,368	$159,551	$ 3,013,954	$ (16,972)	$3,620,901	$ 6	$ 3,620,907

The accompanying notes are an integral part of these consolidated financial statements.

Axtel, S. A. B. de C. V. and Subsidiaries
(Subsidiary of Alfa, S. A. B. de C. V.)

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017
Thousands of Mexican pesos

	2018	2017
Cash flows from operating activities		
(Loss) income before taxes	$ (969,323)	$ 20,854
Depreciation and amortization	3,622,713	3,353,127
Exchange fluctuation gain, net	(186,888)	(648,280)
Allowance for doubtful accounts	114,207	235,345
Gain from sale of property, plant and equipment	(226,646)	(823,269)
Interest income	(52,129)	(56,698)
Interest expense	1,868,618	1,647,027
Current PTU	9,825	11,873
Provisions and others	129,315	(13,783)
Change in unrealized fair value and settlement of financial instruments	35,202	(27,052)
Changes in working capital:		
Trade and other accounts receivable, net	(629,388)	242,026
Inventories	84,083	(79,497)
Trade accounts payable, related parties and other accounts payable	395,526	88,554
Employee benefits	38,797	84,666
Paid PTU	(16,693)	(14,519)
Deferred income	224,331	(710,484)
Operating cash flows from discontinued operations	1,061,978	1,151,009
Subtotal	5,503,528	4,460,899
Income taxes paid	(92,478)	(66,214)
Net cash flows generated by operating activities	5,411,050	4,394,685
Cash flows from investing activities		
Acquisitions of property, plant and equipment	(1,405,494)	(2,411,999)
Disposal de property, plant and equipment	226,646	856,964
Acquisition of intangible assets	(465,207)	(95,128)
Interest received	52,318	56,508
Other assets	29,033	(34,420)
Investment in shares of Altán	(17,868)	(137,719)
Investing cash flows from discontinued operations	3,956,544	(541,530)
Net cash flows generated by (used in) investing activities	2,375,972	(2,307,324)
Cash flows from financing activities		
Proceeds of current and non-current debt	619,355	16,039,280
Payments of current and non-current debt	(5,753,342)	(16,874,140)
Interest paid and other financial expenses	(1,677,825)	(1,512,296)
Net cash flows used in financing activities	(6,811,812)	(2,347,156)
Net increase (decrease) of cash and cash equivalents	975,210	(259,795)
Effect of changes in exchange rates	16,142	70,480
Cash and cash equivalents at the beginning of the year	1,257,803	1,447,118
Cash and cash equivalents at the end of the year	$2,249,155	$ 1,257,803
Significant non-cash transactions:		
Issuance of shares (See note 19)	-	258,410
Finance Leases	$ 680,154	$ 310,778

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

As of and for the years December 31, 2018 and 2017
Thousands of Mexican pesos, unless otherwise indicated

1. General information

Axtel, S. A. B. de C. V. and subsidiaries ("Axtel" or the "Company") was incorporated in Mexico as a capital stock company. Axtel's office is located at Boulevard Díaz Ordaz km 3.33 L-1, Colonia Unidad San Pedro, 66215 San Pedro Garza García, Nuevo León, Mexico.

Axtel is a publicly owned corporation, whose shares are registered at the National Securities Registry and are traded at the Mexican Stock Exchange ("Bolsa Mexicana de Valores" in Spanish) through Certificates of Participation ("CPOs") issued under the Trust whose trustee is Nacional Financiera, S. N. C. The Company is subsidiary of Alfa, S. A. B. de C. V. ("Alfa"), direct holding and last company of the Group, which exercises control and holds 52.78% through the Trust Administration Agreement No. 2673 entered into with Banco Invex, S. A. Alfa has control over the Company's relevant activities.

The Company is engaged in installing, operating and/or exploiting a public telecommunications network for the provision of services involving conducting voice signals, sounds, data, internet, texts and images, IT, local as well as domestic and international long-distance telephone service and restricted television service. Concessions are required to provide these services and conducting the Company's business activities. See Note 11.

Axtel conducts its activities through subsidiary companies of which it is the owner or of which it controls directly most of the common shares representing their capital stock. See Note 3.c.

In the following notes to the consolidated financial statements, references to pesos or "$" mean thousands of Mexican pesos; additionally, reference to dollars or "US$" mean thousands of U.S. dollars, unless otherwise indicated for both cases.

2. Relevant events

2018

a. Sale of massive segment

On December 17, 2018, the Company divested a significant portion of its Massive Segment through the sale of assets, shares, inventories, receivables and telecommunications equipment to Grupo Televisa in exchange for an economic consideration of $4,713 million pesos, recognizing a gain of $1,950 million pesos, which is presented in discontinued operations within the consolidated statements of income. The remainder of the Massive Segment that was not disposed of in this transaction, continues to be operated by the Company as of December 31, 2018.

On December 21, 2018, with the proceeds obtained from the transaction, Axtel made a partial prepayment of the syndicated loan held with HSBC, as lead coordinator of the participating financial institutions, for $4,350 million pesos, reducing the outstanding principal balance to $1,570 million pesos as of December 31, 2018. Debt issuance costs of $26,500 pending to be amortized and that corresponded to the amount of the prepayment, were recognized in results in the statement of income.

Additionally, as explained in Note 20, the operations subject to the transaction are presented as discontinued operations for 2018 and in 2017 for comparative purposes as required by IFRS. The balances of assets and liabilities associated with the transaction, as well as the cash flows generated by the disposed operation during 2017 and until the date of the sale in 2018 are disclosed in the corresponding Note.

b. ***Sale of towers with American Tower Corp.***

During March and June 2018, the Company reached a sale agreement with MATC Digital, S. de R.L. of C.V. ("MATC"), a subsidiary of American Tower Corporation, to sell 17 and 12 telecommunication towers, respectively, for US $12,359. The agreement included the commitment of Axtel to use these sites from MATC for 15 years.

The transactions for the sale of telecommunication towers had a net profit of $224,974, which is presented within operating income.

c. ***Debt proceeds from Export Development Canada***

On August 31, 2018, the Company received debt funding of $300,000 associated with a long-term loan from Export Development Canada due in 2021 with monthly capital payments and accruing interest at a 91-day TIIE rate plus 1.875 basis points. The proceeds obtained from this loan were used mainly to pay the short-term debt with BBVA Bancomer for $200,000.

d. ***Debt restructuring***

On February 22, 2018, the Company's syndicated long-term credit with HSBC Mexico was increased by $ 291,000 from the original amount of $5,709,000 to $6,000,000, with the same terms as the original credit. The proceeds obtained from this additional loan were used to pay short-term debt of $400,000 with HSBC Mexico.

On August 30, 2018, the Company entered into a debt restructuring agreement with Bancomext to exchange the original debt of US$171,000 to a new debt of $3,263,000. The terms of the new debt is 10 years with quarterly principal payments from the third year and with a 91-day TIIE interest rate plus 2.10 basis points. The Company accounted for this transaction as an extinguishment of the liability in dollars in accordance with IFRS 9 Financial Instruments, recording an impact on the income statement of $6,784 as a loss in the extinguishment.

2017

a. ***Issuance and prepayment of debt***

On November 9, 2017, the Company placed Senior Notes in the international market and listed on the Irish Stock Exchange under a private offering under Rule 144A and Regulation S in the amount of US$ 500 million, gross of issuance costs of US$7 million. The Senior Notes will accrue an annual coupon of 6.375% maturing in 7 years. The proceeds were mainly used to prepay the existing debt, including certain transaction costs and expenses. All transaction costs from the existing debt pending to be amortized, were recognized in the consolidated statement of income for $52,875.

On December 19, 2017, the Company signed a bilateral credit agreement with HSBC México, for an amount of $5,709 million pesos (equivalent to US$300 million) with a maturity of 5 years and at a variable interest rate with a margin on the TIIE rate applicable according to the leverage ratio between 1.875% and 3.25%. The proceeds obtained were used to prepay the remaining debt of the syndicated loan, denominated mainly in dollars.

b. ***Shareholding in ALTÁN***

On November 17, 2016, the consortium Altán Redes, S. A. P. I. de C. V. ("Altán") was the winner of the international contest promoted by the Secretariat of Communications and Transport, for the construction and operation of the Shared Network.

The Company has a shareholding equivalent to 1.9634% of Altán's capital stock, which will represent an investment of US$15,000, of which US$1,000 was paid in cash in January 2017 and the remaining through a service provision plan. It is important to mention that the shares of all shareholders have been granted as collateral through their involvement in a trust fund to support financing required by Altán and previously agreed between the partners.

In this sense, Axtel will not only be a shareholder of Altán, but also provider of telecommunication and IT services, as well as client once the network starts operating. However, as it is a concessionaire of telecommunication services, the Company will not have significant influence on Altán's operations. Based on the above, the Company's interest will be performed by acquiring a special series of shares without voting rights, largely providing services and capabilities.

On January 17, 2017, the Secretariat of Communications and Transport, through the Promoting Body of Investments in Telecommunications ("Promtel" from Spanish), as well as the Federal Telecommunications Institute ("IFT" from Spanish), awarded Altán a concession title for commercial use as a wholesaler shared network, with a maturity of 20 years from the date it is granted.

Currently, the Company has signed several agreements and is working to sign new service agreements with Altán whereby Axtel will be bound to render services up to a minimum amount of US$15,000.

c. ***Adjustment to Alfa shareholding***

On July 18, 2017 and in accordance with the resolutions adopted at the General Shareholders' Extraordinary Meeting held on January 15, 2016 relating to the merger of Onexa, S. A. de C. V., Axtel proceeds to deliver to Alfa 1,019,287,950 Class "I" shares of Series "B", representing an additional ownership to Alfa of 2.50% in Axtel. The shares were previously held in Axtel's Treasury and their payment to Alfa cancelled the liability previously recognized by Axtel as consideration for the merger.

d. ***Sale of towers with American Tower Corp.***

On July 11, 2017, the Company announced that it entered into a sale agreement with MATC Digital, S. de R. L. de C. V. ("MATC"), a subsidiary of American Tower Corporation, to sell 142 telecommunication towers at approximately US$56 million. The agreement includes Axtel's commitment to lease such sites to MATC for 15 years.

The transaction was structured in stages according to the delivery of documentation and obtaining relevant regulatory authorizations. The initial stage of the transaction was performed on June 30, 2017, is expected to conclude in 2018 and is subject to obtaining the appropriate authorizations. At the date of the financial statements, the transaction has been fully concluded.

e. ***Merger of Alestra, S. de R. L. de C. V.***

At the Extraordinary General Shareholders' Meeting held on April 27, 2017, a merger agreement was signed by Alestra, S. de R. L. de C. V. (as the incorporated or merged company) with Axtel, S. A. B. de C. V. (as the incorporating or merging company). This merger was effective on May 1, 2017 and has no impact on the Company's operation at a consolidated level.

f. ***Loss absorption***

At the Ordinary General Shareholders' Meeting on March 10, 2017, the shareholders agreed to decrease the Company's minimum fixed capital stock in the aggregate amount of $9,868,332, in order to absorb prior years' retained losses in the aggregate amount of $10,513,042, and having previously applied the additional paid-in capital of $644,710. This capital reduction will be carried out without modifying or reducing the number of shares that represent the Company's capital stock.

3. Summary of significant accounting policies

The following are the most significant accounting policies followed by Axtel and its subsidiaries, which have been consistently applied in the preparation of their financial information in the years presented, unless otherwise indicated:

a. ***Basis of preparation***

The consolidated financial statements of Axtel, S. A. B. de C. V. and subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). IFRS include International Accounting Standards ("IAS") in force and all related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), including those previously issued by the Standard Interpretations Committee ("SIC").

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments which are measured at fair value.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. Additionally, it requires management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, as well as the areas where judgments and estimates are significant to the consolidated financial statements, are disclosed in Note 5.

b. Changes in accounting policies and disclosures

i. New standards and changes adopted by the Company

The Company adopted all new standards and interpretations in effect as of January 1, 2018, including the annual improvements to IFRS, as described below:

IFRS 9, Financial Instruments

IFRS 9, *Financial instruments*, replaces IAS 39, *Financial instruments: recognition and measurement.* This standard is mandatorily effective for periods beginning on or after January 1, 2018 and introduces a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. More specifically, the new impairment model is based on expected credit losses rather than incurred losses, and will apply to debt instruments measured at amortized cost or fair value through other comprehensive income (FVTOCI), lease receivables, contract assets and certain written loan commitments and financial guarantee contracts.

In regards of the expected loss impairment model, the initial adoption requirement of IFRS 9 is retrospective and establishes as an option to adopt it without modifying the financial statements of previous years by recognizing the initial effect on retained earnings at the date of adoption. In case of hedge accounting, IFRS 9 allows application with a prospective approach.

The Company had no impacts associated with the new measurement category of fair value through other comprehensive income, because it currently does not have any instrument that qualifies for this treatment; however, potential impacts could arise if its investment strategy was changed in the future. In addition, there were no impacts related to hedge accounting.

Finally, in regards to the new model for impairment based on expected losses, management of the Company decided to adopt the standard through the modified retrospective approach, recognizing the effects on retained earnings as of January 1, 2018 and determined that there were no significant effects on the transition date.

IFRS 15, Revenues from Contracts with Customers

IFRS 15, *Revenues from contracts with customers,* is effective for periods beginning January 1, 2018. Under this standard, revenue recognition is based on the transfer of control, i.e. notion of control is used to determine when a good or service is transferred to the customer.

The standard also presents a single comprehensive model for the accounting for revenues from contracts with customers, which introduces a five-step approach for revenue recognition: (1) identifying the contract; (2) identifying the performance obligations in the contract; (3) determining the transaction price; (4) allocating the transaction price to the performance obligations in the contract; and (5) recognizing revenue when the Company satisfies a performance obligation.

The Company's management adopted this standard applying the modified retrospective approach applied to contracts in effect at the date of initial adoption on January 1, 2018. Based on its analysis, the Company did not have significant impacts on the date of initial adoption of IFRS 15. Nevertheless, the Company made changes in the accounting policy applied since January 1, 2018 and determined that for new contracts that are negotiated beginning January 1, 2018, in which additional performance obligations related to the equipment used to provide services to customers are identified, revenue will be recognized for the sale of the equipment at the moment in which the control is transferred to the customer; an account receivable for the contractual payments equal to the net lease investment, and the corresponding cost of the equipment; in addition, during the term of these contracts, the Company will recognize interest income based on the effective interest method.

IFRIC 22, Interpretation on Foreign Currency Transactions and Advance Consideration

This new Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation is being issued to reduce diversity in practice related to the exchange rate used when an entity reports transactions that are denominated in a foreign currency in accordance with IAS 21 in circumstances in which consideration is received or paid before the related asset, expense, or income is recognized. Effective for annual reporting periods beginning after January 1, 2018.

The Company translates advance considerations at the exchange rate on the date of the transaction, either received or paid, and recognizes them as non-monetary items; therefore, it did not have significant impacts in the adoption of this interpretation in its consolidated financial statements.

ii. New IFRS and interpretations issued, not effective in the reporting period.

A series of new standards, amendments and interpretations have been issued, which are not yet effective for reporting periods ended in December 31, 2018, and have not been early adopted by the Company.

Below is a summary of these new standards and interpretations as well as the Company's assessment as to the potential impacts on the consolidated financial statements:

IFRS 16, *Leases*

IFRS 16, *Leases,* supersedes IAS 17, *Leases*, and the related interpretations. This new standard brings most leases on balance sheet for lessees under a single model, eliminating the distinction between operating and financial leases, while the model for lessees remains without significant changes. IFRS 16 is effective beginning January 1, 2019, and the Company decided to adopt it with the recognition of all the effects as of that date, without changing prior years.

Under IFRS 16, lessees will recognize a right-of-use asset and the corresponding lease liability. The right of use will be depreciated based on the contractual term or, in some cases, on its economic useful life. On the other hand, the financial liability will be measured at initial recognition, discounting future minimum lease payments at present value according to a term, using the discount rate that represents the lease funding cost; subsequently, the liability will accrue interest through maturity.

The Company will apply the exemptions to not to recognize an asset and a liability as described above, for lease agreements with a term of less than 12 months (provided that they do not contain purchase or term renewal options) and for those agreements where the acquisition of an individual asset of the contract was less than USD$5,000 (five thousand dollars). Therefore, payments for such leases will continue to be recognized as expenses within operating income.

The Company adopted IFRS 16 on January 1, 2019; therefore, it reported a right-of-use asset and a lease liability of $676,660, as its initial adoption effect.

In addition, the Company adopted and applied the following practical expedients provided by IFRS 16:

- Account for as leases the payments made in conjunction with the rent, and that represent services (for example, maintenance and insurance).
- Create portfolios of contracts that are similar in terms, economic environment and characteristics of assets, and use a funding rate by portfolio to measure leases.
- For leases classified as financial leases as of December 31, 2018, and without elements of minimum payment updating for inflation, maintain the balance of the right-of-use asset, and its corresponding lease liability on the date of adoption of IFRS 16.
- Not to revisit the previously reached conclusions for service agreements which were analyzed to December 31, 2018 under the IFRIC 4, *Determining Whether a contract Contains a Lease*, and where it had been concluded that there was no implicit lease.

The Company has taken the required steps to implement the changes that the standard represents in terms of internal control, tax and systems affairs, from the adoption date.

Lastly, as a result of these changes in accounting, some performance indicators of the Company, such as operating income and adjusted EBITDA, will be affected because what was previously recognized as an operating rental expense equivalent to rental payments, now a portion will be recognized by reducing the financial liability (which will not affect the statement of income), and the other portion will be recognized as a financial expense under the operating income indicator. On the other hand, the expense for depreciation of right-of-use assets will affect operating income linearly, but without representing a cash outflow, which will benefit the adjusted EBITDA.

IFRIC 23, *Uncertainty over Income Tax Treatments*

This new Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 Income taxes when there is uncertainty over income tax treatments. Uncertain tax treatments are a tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law. In such a circumstance, an entity shall recognize and measure its current or deferred tax asset or liability by applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

An entity shall apply IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted and the fact must be disclosed. On initial application, the Interpretation must be applied retrospectively under the requirements of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, modifying comparative periods or retrospectively with the cumulative effect of initially applying the Interpretation as an adjustment to the opening balance of retained earnings, without modifying comparative periods.

The Company determined that the impacts of the implementation of this Interpretation as of January 1, 2019 are not material considering the prevailing conditions of the tax positions that it has taken at the date of adoption and the faculties of the competent authorities to assess tax positions held by the Company at the same date.

c. ***Consolidation***

i. Subsidiaries

The subsidiaries are all the entities over which the Company has control. The Company controls an entity when it is exposed, or has the right to variable returns from its interest in the entity and it is capable of affecting the returns through its power over the entity. When the Company's interest in subsidiaries is less than 100%, the interest attributed to external shareholders is recorded as non-controlling interest. Subsidiaries are consolidated in full from the date on which control is transferred to the Company and up to the date it loses such control.

The accounting method used by the Company for business combinations is the acquisition method. The Company defines a business combination as a transaction in which it gains control of a business, and through which it is able to direct and manage the relevant activities of the set of assets and liabilities of such business with the purpose of providing a return in the form of dividends, smaller costs or other economic benefits directly to shareholders.

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable acquired assets and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquire based on the share of the non-controlling interest in the net identifiable assets of the acquired entity.

The Company accounts for business combinations using the predecessor method in a jointly controlled entity. The predecessor method involves the incorporation of the carrying amounts of the acquired entity, which includes the goodwill recognized at the consolidated level with respect to the acquiree. Any difference between the transferred consideration and the carrying amount of the net assets acquired at the level of the subsidiary are recognized in equity.

The acquisition-related costs are recognized as expenses when incurred.

Goodwill is initially measured as excess of the sum of the consideration transferred and the fair value of the non-controlling interest in the subsidiary acquired over the net identifiable assets and liabilities assured. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated statement of income.

If the business combination is achieved in stages, the book value at the acquisition date of the interest previously held by the Company in the acquired entity is remeasured at its fair value at the acquisition date. Any loss or gain resulting from such remeasurement is recorded in results of the year.

Transactions and intercompany balances, as well as unrealized gains on transactions between Axtel companies are eliminated in preparing the consolidated financial statements. In order to ensure consistency with the policies adopted by the Company, the amounts reported by subsidiaries have been modified where it was deemed necessary.

As of December 31, 2018 and 2017, the main subsidiary companies of Axtel were as follows:

		Shareholding interest (%)		
	Country	**2018**	**2017**	**Functional currency**
Axtel, S. A. B. de C. V. (Holding company) (3)	Mexico			Mexican peso
Servicios Axtel, S. A. de C. V. (1)	Mexico	100	100	Mexican peso
Alestra Comunicación, S. de R. L. de C. V. (3)	Mexico	100	100	Mexican peso
Avantel, S. de R. L. de C. V. ("Avantel") (3)	Mexico	100	100	Mexican peso
Axes Data, S. A. de C. V. (1)	Mexico	100	100	Mexican peso
Contacto IP, S. A. de C. V. (1)	Mexico	100	100	Mexican peso
Instalaciones y Contrataciones, S. A. de C. V. (1)	Mexico	100	100	Mexican peso
Servicios Alestra, S. A. de C. V. (1)	Mexico	99.98	99.98	Mexican peso
Ingeniería de Soluciones Alestra, S. A. de C. V. (1)	Mexico	100	100	Mexican peso
Alestra USA, Inc. (2)	USA	100	100	U.S. dollar
S&C Constructores de Sistemas, S. A. de C. V. ("S&C")	Mexico	100	100	Mexican peso
Alesre Insurance Pte, Ltd. (4)	Singapore	100	100	U.S. dollar
Estrategias en Tecnología Corporativa, S. A. de C. V. ("Estratel") (3)	Mexico	100	100	Mexican peso
Servicios Alestra TI, S. A. de C. V. (1)	Mexico	100	100	Mexican peso

(1) Provider of administrative services.

(2) Leasing of telecommunications and infrastructure equipment.

(3) Provider of telecommunication services.

(4) Company with no primary operations.

As of December 31, 2018 and 2017, there are no significant restrictions for the investment in shares of the subsidiary companies mentioned above.

ii. Absorption (dilution) of control in subsidiaries

The effect of absorption (dilution) of control in subsidiaries, that is, an increase or decrease in the percentage of control, is recorded in shareholders' equity, directly in retained earnings, in the period in which the transactions that cause such effects occur. The effect of absorption (dilution) of control is determined by comparing the book value of the investment in shares before the event of dilution or absorption against the book value after the relevant event. In the case of loss of control, the dilution effect is recognized in income.

When the Company issues a call option on certain non-controlling interests in a consolidated subsidiary and the non-controlling shareholders retain the risks and benefits over such interests in the consolidated subsidiary, these are recognized as financial liabilities at the present value of the amount to be reimbursed from the options, initially recorded with the corresponding reduction in equity and subsequently accruing through financial charges in results during the contractual period.

iii. Sale or disposal of subsidiaries

When the Company ceases to have control, any retained interest in the entity is remeasured at fair value, and the change in the carrying amount is recognized in the consolidated statement of income. The fair value is the initial carrying amount for purposes of accounting for any subsequent retained interest in the associate, joint venture or financial asset. Any amount previously recognized in comprehensive income in respect of that entity is accounted for as if the Company had directly disposed of the related assets and liabilities. This results in the amounts previously recognized in comprehensive income being reclassified to income for the year.

iv. Associates

Associates are all entities over which the Company has significant influence but not control. Generally, an investor must hold between 20% and 50% of the voting rights in an investee for it to be an associate. Investments in associates are accounted for using the equity method and are initially recognized at cost. The Company's investment in associates includes goodwill identified at acquisition, net of any accumulated impairment loss.

If the equity in an associate is reduced but significant influence is maintained, only a portion of the amounts previously recognized in the comprehensive income are reclassified to income for the year, where appropriate.

The Company's share of profits or losses of associates, post-acquisition, is recognized in the consolidated statement of income and its share in the other comprehensive income of associates is recognized as other comprehensive income. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including unsecured receivables, the Company does not recognize further losses unless it has incurred obligations or made payments on behalf of the associate.

The Company assesses at each reporting date whether there is objective evidence that the investment in the associate is impaired. If so, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes it in "Equity in income of associates recognized using the equity method" in the consolidated statement of income.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company´s interest in such gains. Unrealized losses are also eliminated unless the transaction provides evidence that the transferred asset is impaired. In order to ensure consistency with the policies adopted by the Company, the accounting policies of associates have been modified. When the Company ceases to have significant influence over an associate, any difference between the fair value of the remaining investment, including any consideration received from the partial disposal of the investment, and the book value of the investment is recognized in the consolidated statement of income.

As of December 31, 2018 and 2017, the Company has no associates.

d. ***Foreign currency translation***

i. Functional and presentation currency

The amounts included in the financial statements of each of the Company's subsidiaries should be measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Mexican pesos, which is the Company's presentation currency. Note 3c describes the functional currency of the Company and its subsidiaries.

When there is a change in the functional currency of one of the subsidiaries, according to International Accounting Standard 21, *Effects of Changes in Foreign Currency Exchange Rates* ("IAS 21"), this change is accounted for prospectively, translating at the date of the functional currency change, all assets, liabilities, equity and income items at the exchange rate of that date.

ii. Transactions and balances

Transactions in foreign currencies are translated into the functional currency using the foreign exchange rates prevailing at the transaction date or valuation date when the amounts are remeasured. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing exchange rates are recognized as foreign exchange gain or loss in the consolidated statement of income, except for those which are deferred in comprehensive income and qualify as cash flow hedges.

The exchange differences in monetary assets classified as financial instruments at fair value with changes through profit or loss are recognized in the consolidated statement of income as part of the gain or loss in fair value.

Translation of subsidiaries with recording currency other than the functional currency.

The financial statements of foreign subsidiaries, having a recording currency different from their functional currency, were translated into the functional currency in accordance with the following procedure:

a. The balances of monetary assets and liabilities denominated in the recording currency were translated at the closing exchange rate.

b. To the historical balances of monetary assets and liabilities and shareholders' equity translated into the functional currency the movements that occurred during the period were added, which were translated at historical exchange rates. In the case of the movements of non-monetary items recognized at fair value, which occurred during the period stated in the recording currency, these were translated using the historical exchange rates in effect on the date when the fair value was determined.

c. Revenues, costs and expenses of the periods, expressed in the recording currency, were translated at the historical exchange rates of the date they were accrued and recognized in the consolidated statement of income, except when they arose from non-monetary items, in which case the historical exchange rate of the non-monetary items was used.

d. The exchange differences arising in the translation were recognized in the consolidated statement of income in the period they arose.

The primary exchange rates in the different translation procedures are listed below:

		Local currency to Mexican pesos			
		Closing exchange rate as of December 31,		Average annual exchange rate	
Country	**Local currency**	**2018**	**2017**	**2018**	**2017**
United States	U.S. dollar	19.68	19.74	19.24	18.94

e. ***Cash and cash equivalents***

Cash and cash equivalents include cash on hand, bank deposits available for operations and other short-term investments of high credit-quality and liquidity with original maturities of three months or less, all of which are subject to insignificant risk of changes in value.

f. ***Restricted cash***

Cash whose restrictions cause them not to comply with the definition of cash and cash equivalents given above, are presented in a separate line in the consolidated statement of financial position and are excluded from cash and cash equivalents in the consolidated statement of cash flows.

g. ***Financial instruments***

Financial assets

Through December 31, 2017, the Company classified financial assets into the following categories: at fair value through profit or loss, loans and receivables, investments held to maturity and available for sale. The classification depended on the purpose for which the financial assets were acquired.

Beginning January 1, 2018, in accordance to the adoption of IFRS 9 *Financial Instruments*, the Company subsequently classifies and measures its financial assets based on the Company's business model to manage financial assets, and on the characteristics of the contractual cash flows of such assets. This way financial assets can be classified at amortized cost, at fair value through other comprehensive income, and at fair value through profit or loss. Management determines the classification of its financial assets upon initial recognition. Purchases and sales of financial assets are recognized at settlement date.

Financial assets are entirely written off when the right to receive the related cash flows expires or is transferred, and the Company has also substantially transferred all the risks and rewards of its ownership, as well as the control of the financial asset.

Classes of financial assets under IAS 39, in effect through December 31, 2017.

i. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired mainly for the purpose of being sold in the short term. Derivative financial instruments are also classified as held for trading unless they are designated as hedges.

Financial assets recorded at fair value through profit or loss are initially recognized at fair value, and transaction costs are recorded as an expense in the consolidated statement of income. Gains or losses due to changes in the fair value of these assets are presented in profit or loss of the period in which they are incurred.

Beginning January 1, 2018, financial assets at fair value through profit or loss still maintain their classification according to the assessment of their business model; nevertheless, the financial assets that were previously classified in this category at December 31, 2017, there were no impacts on the measurement and they are classified as described in the subsection *vii*.

ii. Loans and accounts receivable

Accounts receivable are non-derivative financial assets with fixed or specific payments that are not traded in an active market. They are included as current assets, except for maturities greater than 12 months after the date of the consolidated statement of financial position, which are classified as non-current assets.

Loans and receivables are initially valued at fair value plus directly attributable transaction costs and, subsequently, at amortized cost, using the effective interest method. When circumstances indicate that amounts receivable will not be collected in the amounts initially agreed or will be collected in a different period, accounts receivable are impaired.

Beginning January 1, 2018, loans and receivables are considered within the class of financial assets at amortized cost (see number *v* in this section).

iii. Investments held to maturity

If the Company has a demonstrable intention and capacity to hold debt instruments to maturity, they are classified as held to maturity. Assets in this category are classified as current assets if they are expected to be settled within the following 12 months, otherwise, they are classified as non-current assets. They are initially recognized at fair value plus any directly attributable transaction cost, subsequently, they are valued at amortized cost using the effective interest method. Investments held to maturity are recognized or written off on the day they are transferred to or through the Company. As of December 31, 2017, the Company does not have this type of investments.

iv. Investments available for sale

Investments available for sale are non-derivative financial assets designated to this category or that do not fall under any of the other categories. They are included as non-current assets, unless their maturity is less than 12 months or management intends to dispose of that investment within the following 12 months after the date of the consolidated statement of financial position.

Investments available for sale are initially recognized at fair value plus directly attributable transaction costs. Subsequently, these assets are recorded at fair value (unless they cannot be measured at their value in an active market, and the value is not reliable, in this case, they will be recognized at cost less impairment).

Gains or losses arising from changes in the fair value of monetary and non-monetary instruments are directly recognized in the consolidated statement of comprehensive income in the period in which they occur.

When investments classified as available for sale are sold or impaired, the fair value accumulated adjustments recognized in equity are reclassified to the consolidated statement of income.

As of December 31, 2017, the Company does not have this type of investments.

Classes of financial assets under IFRS 9, in effect beginning January 1, 2018.

v. Financial assets at amortized cost

Financial assets at amortized cost are those that i) are held within a business model whose objective is to hold said assets in order to collect contractual cash flows and ii) the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the amount of outstanding principal.

vi. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are those whose business model is based in obtaining contractual cash flows and sell the financial assets; and the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the amount of outstanding principal. As of December 31, 2018, the Company does not have financial assets to be measured at fair value through other comprehensive income.

vii. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss, in addition to those described in point *i* in this section, are those that do not meet the characteristics to be measured at amortized cost or fair value through other comprehensive income, since i) they have a business model different to those that seek to collect contractual cash flows, or collect contractual cash flows and sell the financial assets, or otherwise ii) the generated cash flows are not solely payments of principal and interest on the amount of outstanding principal.

Despite the above classifications, the Company can make the following irrevocable choices in the initial recognition of a financial asset:

a. Disclose the subsequent changes in the fair value of an equity instrument in other comprehensive income, only if such investment (in which no significant influence, joint control or control is maintained) is not held for trading purposes, that is, a contingent consideration recognized as a result of a business combination.

b. Assign a debt instrument to be measured at fair value in profit or loss, if as a result it eliminates or significantly reduces an accounting mismatch that would arise from the measurement of assets or liabilities or the recognition of profits and losses on them in different bases.

As of December 31, 2018, the Company has not made any of the irrevocable designations described above.

Impairment of financial assets

Through December 31, 2017, the Company assessed whether there was objective evidence of impairment of each financial asset or group of financial assets. An impairment loss was recognized if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event"), and provided that the loss event (or events) had an impact on the estimated future cash flows derived from the financial asset or group of financial assets that could be reliably estimated.

New impairment policy from the adoption of IFRS 9

Beginning January 1, 2018, the Company used a new impairment model based on expected credit losses rather than losses incurred, applicable to financial assets subject to such assessment (i.e. financial assets measured at amortized cost and at fair value through other comprehensive income), as well as lease receivables, contract assets, certain written loan commitments, and financial guarantee contracts. The expected credit losses on these financial assets are estimated from the initial recognition of the asset at each reporting date, using as a reference the past experience of the Company's credit losses, adjusted for factors that are specific to the debtors or groups of debtors, the general economic conditions and an assessment of both, the current management and the forecast of future conditions.

a. Trade accounts receivables

The Company adopted a simplified expected loss calculation model, through which expected credit losses during the accounts payable's lifetime are recognized.

The Company does an analysis of its portfolio of accounts receivable from clients, in order to determine if there are significant clients for whom it requires an individual evaluation; on the other hand, customers with similar characteristics that share credit risks (participation in the portfolio of accounts receivable, market type, sector, geographic area, etc.), are grouped to be evaluated collectively.

In its impairment assessment, the Company may include indications that the debtors or a group of debtors are experiencing significant financial difficulties, as well as observable data indicating that there is a significant decrease in the estimate of the cash flows to be received, including delays.

For purposes of the previous estimate, the Company considers that the following constitutes an event of default, since historical experience indicates that financial assets are not recoverable when they meet any of the following criteria:

- the debtor incompletes the financial agreements; or
- the information developed internally or obtained from external sources indicates that it is unlikely that the debtor will pay its creditors, including the Company, completely (without considering any guarantee held by the Company)

The Company is defined as the breach threshold the period from which the recovery of the account receivable subject to analysis is marginal; in this case, 90 days of delay for the massive segment, 120 days for the business segment and 150 days for the government segment, which is in line with the management of internal risks.

b. Other financial instruments

The Company recognizes credit losses expected during the asset's lifetime of all financial instruments for which credit risk has significantly increased since its initial recognition (assessed on a collective or individual basis), considering all the reasonable and sustainable information, including the one referring to the future. If as of the date of presentation of the credit risk a financial instrument has not significantly increased since its initial recognition, the Company calculates the loss allowance for that financial instrument as the amount of expected credit losses in the following 12 months.

In both cases, the Company recognizes in profit or loss of the period the decrease or increase in the expected credit loss allowance at the end of the period, as an impairment gain or loss.

Management assesses the impairment model and the inputs used therein at least once every year, in order to ensure that they remain in effect based on the current situation of the portfolio.

Financial liabilities

Financial liabilities that are not derivatives are initially recognized at fair value and subsequently valued at amortized cost using the effective interest rate method. Liabilities in this category are classified as current liabilities if they are expected to be settled within the following 12 months; otherwise, they are classified as non-current liabilities.

Payables are obligations to pay for goods or services that have been purchased or received from suppliers in the ordinary course of business. Loans are initially recognized at fair value, net of transaction costs incurred. Loans are subsequently recognized at amortized cost; any difference between the resources received (net of transaction costs) and the settlement value is recognized in the consolidated statement of income during the loan's term using the effective interest method.

Derecognition of financial liabilities

The Company derecognizes financial liabilities if, and only if, the obligations of the Company are met, canceled or have expired. The difference between the carrying value of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Additionally, when the Company carries out a refinancing transaction and the previous liability qualifies to be derecognized, the costs incurred in the refinancing are recognized immediately in results as of the date of termination of the previous financial liability.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position when the right to offset the recognized amounts is legally enforceable, and there is an intention to settle them on a net basis or to realize the asset and pay the liability simultaneously.

h. Derivative financial instruments and hedging activities

All derivative financial instruments are identified and classified as fair value hedges or cash flow hedges, for trading or market risk hedging and are recognized in the consolidated statement of financial position as assets and/or liabilities at fair value and similarly measured subsequently at fair value. Fair value is determined based on recognized market prices and when non-quoted in an observable market, it is determined using valuation techniques accepted in the financial sector.

Fair value of hedging derivatives is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability if the remaining maturity of the hedged item is less than 12 months.

Derivative financial instruments classified as hedges are contracted for risk hedging purposes and meet all hedging requirements; their designation at the beginning of the hedging operation is documented, describing the objective, primary position, risks to be hedged and the effectiveness of the hedging relationship, characteristics, accounting recognition and how the effectiveness is to be measured, applicable to that operation.

Fair value hedges

Changes in the fair value of derivative financial instruments are recorded in the consolidated statements of income. The change in fair value hedges and the change in the primary position attributable to the hedged risk are recorded in the consolidated statement of income in the same line item as the hedged position. As of December 31, 2018 and 2017, the Company has no derivative financial instruments classified as fair value hedges.

Cash flow hedges

The changes in the fair value of derivative instruments associated to cash flow hedges are recorded in shareholders' equity. The effective portion is temporarily recorded in comprehensive income, within shareholders' equity and is reclassified to profit or loss when the hedged position affects these, the ineffective portion is immediately recorded in profit or loss. As December 31, 2017, the Company does not have derivative financial instruments designated as cash flow hedges.

Suspension of hedge accounting

The Company suspends hedge accounting when the derivative financial instrument or the non-derivative financial instrument has expired, is cancelled or exercised, when the derivative or non-derivative financial instrument is not highly effective to offset the changes in the fair value or cash flows of the hedged item. The substitution or successive renewal of a hedge instrument by another is not an expiration or resolution if said replacement or renewal is part of the Company's documented risk management objective and is consistent with it.

On suspending hedge accounting, in the case of fair value hedges, the adjustment to the carrying amount of a hedged amount for which the effective interest rate method is used, is amortized to profit or loss over the maturity period. In the case of cash flow hedges, the amounts accumulated in equity as part of comprehensive income remain in equity until the time when the effects of the forecasted transaction affect profit or loss. In the event the forecasted transaction is not likely to occur, the gain or loss accumulated in comprehensive income are immediately recognized in profit or loss. When the hedge of a forecasted transaction appears satisfactory and subsequently does not meet the effectiveness test, the cumulative effects in comprehensive income in shareholders' equity are transferred proportionally to profit or loss, to the extent the forecasted transaction impacts it.

Fair value of derivative financial instruments reflected in the Company's consolidated financial statements, is a mathematical approximation of their fair value. It is computed using proprietary models of independent third parties using assumptions based on past and present market conditions and future expectations at closing date.

i. ***Inventories***

Inventories are shown at the lesser of its cost and net realization value. The cost is determined using the weighted average cost method. The cost of the finished products and products in process includes the product design cost, raw material, direct labor, other direct costs and overhead costs (based in the normal operation capacity). Excludes borrowing costs. The net realization value is the estimated sales price in the ordinary course of the business, less variable sale expenses applicable.

j. ***Prepayments***

Prepayments mainly comprise insurance and prepayments to service providers. The amounts are recorded on the basis of contractual values and are recorded monthly in the consolidated statement of income every month over the lifetime of the corresponding prepayment: the amount corresponding to the proportion to be considered over the following 12 months is shown under current assets and the remaining amount is shown under non-current assets.

k. ***Property, plant and equipment***

Items of property, plant and equipment are recorded at cost less accumulated depreciation and any accrued impairment losses. Cost includes expenses directly attributable to the asset acquisition.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably measured. The carrying amount of the replaced part is derecognized. Repairs and maintenance are recognized in the consolidated statement of income during the year they are incurred. Major improvements are depreciated over the remaining useful life of the related asset.

When the Company carries out major repairs or maintenance of its property, plant and equipment assets, cost is recognized in the carrying amount of the corresponding asset as a replacement, provided that the recognition criteria are met. The remaining portion of any major repair or maintenance is derecognized. The Company subsequently depreciates the recognized cost in the useful life assigned to it, based on its best estimate of useful life.

Depreciation is calculated using the straight-line method, considering separately each of the asset's components, except for land, which is not subject to depreciation. The estimated useful lives of assets classes are as follows:

	Years
Buildings	40 - 60
Computers	3 - 5
Vehicles	4
Office equipment	10
Telecommunications network	6 to 28

Spare parts to be used after one year and attributable to specific machinery are classified as property, plant and equipment in other fixed assets.

Borrowing costs related to financing of property, plant and equipment whose acquisition or construction relates to qualifying assets, that require a substantial period of time to be ready for their use or sale, are capitalized as part of the cost of acquiring such qualifying assets, up to the moment when they are suitable for their intended use or sale.

Assets classified as property, plant and equipment are subject to impairment tests whenever events or circumstances occur indicating that the carrying amount of the assets may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount in the consolidated statement of income in other expenses, net. The recoverable amount is the higher of its fair value less costs to sell and its value in use.

Residual value, useful lives and depreciation method of assets are reviewed at least at the end of each reporting period and, if expectations differ from previous estimates, the changes are accounted for as a change in accounting estimate.

Gains and losses on disposal of assets are determined by comparing the sale value with the carrying amount and are recognized in other expenses, net, in the consolidated statement of income.

l. ***Leases***

The classification of leases as finance or operating depends on the substance of the transaction rather than the form of the contract.

Leases in which a significant portion of the risks and rewards relating to the leased property are retained by the lessor are classified as operating leases. Payments made under operating leases (net of incentives received by the lessor) are recognized in the consolidated statement of income based on the straight-line method over the lease period.

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the beginning of the lease, at the lower of the fair value of the leased property and the present value of the minimum lease payments. If its determination is practical, in order to discount the minimum lease payments to present value, the interest rate implicit on the lease is used; otherwise, the incremental borrowing rate of the lessee should be used. Any initial direct costs of the lessor are added to the original amount recognized as an asset.

Each lease payment is allocated between the liability and finance charges to achieve a constant rate on the outstanding balance. The corresponding lease obligations are included in current debt portion and non-current debt, net of finance charges. Interest of finance cost is charged to profit or loss of the year during the period of the lease, so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

As of January 1, 2019, the Company has adopted IFRS 16 – *Leases*, as described in note 3.b, therefore its accounting policy changed as of this date.

m. ***Intangible assets***

Intangible assets are recognized when they meet the following conditions: they are identifiable, they provide future economic benefits and the Company has control over such benefits.

Intangible assets are classified as follows:

i. Finite useful life

These assets are recognized at cost less accumulated amortization and accrued impairment losses. They are amortized on a straight-line basis over their estimated useful life, determined based on the expectation of generating future economic benefits, and are subject to impairment tests when triggering events of impairment are identified.

The estimated useful lives of intangible assets with finite useful lives are summarized as follows:

	Years
Software and licenses	3 - 7
Concessions	20 - 30
Capacity of communications network	13
Other	4
To do and not to do obligations	3
Trademarks	5
Relationships with customers	15

a. Trademarks

Trademarks acquired in a separate transaction are recorded at acquisition cost. Trademarks acquired in a business combination are recognized at fair value at the acquisition date.

Trademarks are amortized according to their useful life based on the Company´s evaluation; if in this evaluation the useful life proves to be indefinite, then trademarks are not amortized but subject to annual impairment tests.

b. Licenses

Licenses acquired in a separate transaction are recorded at acquisition cost. Licenses acquired in a business combination are recognized at fair value at acquisition date.

Licenses that have a definite useful life are presented at cost less accumulated amortization. Amortization is recorded on a straight-line basis over its estimated useful life.

The acquisition of software licenses is capitalized based on the costs incurred to acquire and use the specific software.

ii. Indefinite useful life

These intangible assets are not amortized and are subject to annual impairment assessment. As of December 31, 2018 and 2017, intangible assets with an indefinite life corresponds to goodwill.

n. Goodwill

Goodwill represents the excess of the acquisition cost of a subsidiary over the Company's interest in the fair value of the identifiable net assets acquired, determined at the date of acquisition, and is not subject to amortization. Goodwill is shown under goodwill and intangible assets and is recognized at cost less accumulated impairment losses, which are not reversed. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

o. Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not depreciable or amortizable and are subject to annual impairment tests. Assets that are subject to amortization are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels at which separately identifiable cash flows exist (cash generating units). Non-financial long-term assets other than goodwill that have suffered impairment are reviewed for a possible reversal of the impairment at each reporting date.

p. Income tax

The amount of income taxes in the consolidated statement of income represents the sum of current and deferred income taxes.

The amount of income taxes included in the consolidated statement of income represents the current tax of the year and the effects of deferred income tax determined in each subsidiary by the assets and liabilities method, applying the rate established by the legislation enacted or substantially enacted at the statement of financial position date, wherever the Company operates, and generates taxable income on the total temporary differences resulting from comparing the accounting and tax bases of assets and liabilities, and that are expected to be applied when the deferred tax asset is realized or the deferred tax liability is expected to be settled, considering, when applicable, any tax-loss carryforwards, prior to the recovery analysis. The effect of a change in current tax rates is recognized in profit or loss of the period in which the rate change is determined.

Management periodically evaluates positions taken in tax returns with respect to situations in which the applicable law is subject to interpretation. Provisions are recognized when appropriate based on the amounts expected to be paid to the tax authorities.

Deferred tax assets are recognized only when it is probable that future taxable profits will exist against which the deductions for temporary differences can be taken.

Deferred income tax on temporary differences arising from investments in subsidiaries, associates and joint agreements is recognized, unless the period of reversal of temporary differences is controlled by Axtel and it is probable that the temporary differences will not revert in the near future.

Deferred tax assets and liabilities are offset when a legal right exists and when the taxes are levied by the same tax authority.

q. Employee benefits

i. Pension plans

Defined contribution plans:

A defined contribution plan is a pension plan under which the Company pays fixed contributions to a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to their service in the current and past periods. The contributions are recognized as employee benefit expense on the date that the contribution is required.

Defined benefit plans:

A defined benefit plan is a plan which specifies the amount of the pension an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the consolidated statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the consolidated statement of financial position date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent third parties using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using discount rates in conformity with IAS 19, *Employee Benefits,* that are denominated in the currency in which the benefits will be paid, and have maturities that approximate the terms of the pension liability.

Actuarial remeasurements arising from adjustments and changes in actuarial assumptions are recognized directly in other items of the comprehensive income in the year as they occur, and there will be no reclassified to profit or loss of the period.

The Company determines the net finance expense (income) by applying the discount rate to the liability (asset) from net defined benefits.

Past-service costs are recognized immediately in the consolidated statement of income.

ii. Post-employment medical benefits

The Company provides medical benefits to retired employees after termination of employment. The right to access these benefits usually depends on the employee having worked until retirement age and completing a minimum of years of service. The expected costs of these benefits are accrued over the period of employment using the same criteria as those described for defined benefit pension plans.

iii. Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date or when an employee accepts voluntary termination of employment in exchange for these benefits. The Company recognizes termination benefits on the following dates, whichever occurs first: (a) when the Company can no longer withdraw the offer of these benefits, and (b) when the Company recognizes the costs from restructuring within the scope of the IAS 37 and it involves the payment of termination benefits. If there is an offer that promotes the termination of the employment relationship voluntarily by employees, termination benefits are valued based on the number of employees expected to accept the offer. The benefits that will be paid in the long term are discounted at their present value.

iv. Short-term benefits

The Company provides benefits to employees in the short term, which may include wages, salaries, annual compensation and bonuses payable within 12 months. The Company recognizes an undiscounted provision when it is contractually obligated or when past practice has created an obligation.

v. Statutory employee profit sharing (PTU in Spanish) and bonuses

The Company recognizes a liability and an expense for bonuses and statutory employee profit sharing when it has a legal or assumed obligation to pay these benefits and determines the amount to be recognized based on the tax profit for the year after certain adjustments.

r. Provisions

Liability provisions represent a present legal obligation or a constructive obligation as a result of past events where an outflow of resources to meet the obligation is likely and where the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the value of money over time and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

When there are similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

A restructuring provision is recorded when the Company has developed a formal detailed plan for the restructure, and a valid expectation for the restructure has been created between the people affected, possibly for having started the plan implementation or for having announced its main characteristics to them.

s. Share-based payments

The Company has compensation plans that are based on the market value of shares of Alfa and Axtel, granted to certain senior executives of the Company. The conditions for granting such compensation to the eligible executives includes compliance with certain financial metrics such as level of profit achieved and remaining in the Company for up to 5 years, among other requirements. Alfa's Board of Directors has appointed a Technical Committee to manage the plan, and it reviews the estimated cash settlement of this compensation at the end of the year. The payment of the plan is always subject to the discretion of Alfa's senior management. Adjustments to this estimate are charged or credited to the consolidated statement of income.

Fair value of the amount payable to employees in respect of share-based payments, which are settled in cash, is recognized as an administrative expense in the consolidated statement of income, with a corresponding increase in liabilities, over the period of service required. The liability is included within other liabilities and is adjusted at each reporting date and at settlement date. Any change in the fair value of the liability is recognized as an expense in the consolidated statement of income.

t. ***Capital stock***

Axtel's common shares are classified as capital stock within shareholders' equity. Incremental costs directly attributable to the issuance of new shares are included in equity as a reduction from the consideration received, net of tax.

u. ***Comprehensive income***

Comprehensive income is comprised of net income plus the annual effects of other reserves, net of taxes, which include the translation of foreign subsidiaries, actuarial remeasurements, the effects of the change in the fair value of derivative financial instruments which are designated to cash flow hedges, and other items specifically required to be reflected in shareholders' equity, and which do not constitute capital contributions, reductions and distributions.

v. ***Segment reporting***

Segment information is presented consistently with the internal reporting provided to the Chief Executive Officer, who is the highest authority in operational decision-making, resource allocation and assessment of operating segment performance.

w. ***Revenue recognition***

Revenues comprise the fair value of the consideration received or for the sale of goods and services in the ordinary course of the transactions, and are presented in the consolidated statement of income, net of the amount of variable considerations, which comprise the estimated amount of returns from customers, rebates and similar discounts and payments made to customers so that goods are accommodated in attractive and favorable spaces at their facilities.

To recognize revenues from contracts with customers, the comprehensive model for revenue accounting is used, which is based on a five-step approach consisting of the following: (1) identify the contract; (2) identify performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to each performance obligation in the contract; and (5) recognize the revenue when the company satisfies a performance obligation.

The Company maintains managed service agreements with customers from Government and business segments, which may include multiple deliverables mainly consisting of the delivery of equipment and provision of telecommunications services and information technologies. The Company evaluates certain agreements, in which it identifies more than one separable performance obligation, which consists of the equipment used to provide the service and that is installed in the facilities of the customers. In addition to the equipment, telecommunications and information technologies are identified as another separable performance obligation.

Where the equipment delivered to the customer is a separable performance obligation of the service, the Company assigns the price of managed service agreements to the performance obligations identified and described in the preceding paragraph according to independent market values and related discounts.

The Company recognizes the revenue derived from managed services agreements, as follows:

- Revenues from equipment installed in the facilities of customers is recognized upon transfer of control or right to use them; i.e., at some point in time. This performance obligation has a significant financial component; therefore, revenues are recognized in accordance with the effective interest rate method over the term of the agreement.

- Revenues from services are recognized as they are provided; i.e. as the customer consumes them in relation to services of voice, data and general telecommunications.

Dividend income from investments is recognized once the rights of shareholders to receive this payment have been established (when it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured).

Interest income is recognized when it is likely that the economic benefits will flow to the entity and the amount of revenue can be reliably measured by applying the effective interest rate.

Costs of acquiring new contracts are recognized as contractual assets and are amortized over the period of those contracts in profit or loss, which is when they will generate economic benefits.

The Company's management adopted IFRS 15 - *Revenue from contracts with customers* on January 1, 2018 using the modified retrospective method applied to the contracts in effect at the adoption date, so the accounting policy that was applied on the date previously mentioned is not comparable with the one used for the year ended December 31, 2017, which was based on the transfer of risks and rewards inherent with the provision of services to customers.

x. ***Advances from customers***

Customer prepayments for cable, interconnection, data transmission, internet and local services are billed monthly and applied to profit or loss as revenue for the period as the services are provided. The Company's deferred income are recorded based on the commitment to provide a service to the customers, and the service is recognized in profit or loss as it is provided.

y. ***Earnings per share***

Earnings per share are calculated by dividing the profit attributable to the shareholders by the weighted average number of common shares outstanding during the year. As of December 31, 2018 and 2017, there are no dilutive effects from financial instruments potentially convertible into shares.

4. Financial instruments and financial risk management

The Company's activities expose it to various financial risks: market risk (including exchange rate risks, interest rate risk on cash flows and interest rate risk on fair values), credit risk and liquidity risk.

The Company has a general risk management program focused on the unpredictability of financial markets, and seeks to minimize the potential adverse effects on its financial performance.

The objective of the risk management program is to protect the financial health of the businesses, taking into account the volatility associated with foreign exchange and interest rates. Sometimes, regarding market risks, the Company uses derivative financial instruments to hedge certain exposures to risks.

Alfa (holding company) has a Risk Management Committee (RMC), comprised of the Board's Chairman, the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") of Alfa and the Risk Management Officer ("RMO") of Alfa acting as technical secretary. The RMC reviews derivative transactions proposed by the subsidiaries of Alfa, including Axtel, in which a potential loss analysis surpasses US$1 million. This committee supports both the CEO and the Board's Chairman of the Company. All new derivative transactions which the Company proposes to enter into, as well as the renewal or cancellation of derivative arrangements, must be approved by both the Company and Alfa's CEO, in accordance to the following schedule of authorizations:

	Maximum Possible Loss US$1 million	
	Individual transaction	**Annual cumulative transactions**
Chief Executive Officer of Alfa	1	5
Risk Management Committee of Alfa	30	100
Finance Committee	100	300
Board of Directors of Alfa	>100	>300

The proposed transactions must meet certain criteria, including that the hedges are lower than established risk parameters, and that they are the result of a detailed analysis and properly documented. Sensitivity analysis and other risk analyses should be performed before the transactions are entered into.

Capital management

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders, as well as maintaining an optimal capital structure to reduce the cost of capital.

To maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return equity to shareholders, issue new shares or sell assets to reduce debt.

Axtel monitors capital based on a leverage ratio. This percentage is calculated by dividing total liabilities by total equity.

The financial ratio of total liabilities / total equity was 6.78 times and 11.34 times as of December 31, 2018 and 2017, respectively, resulting on a leverage ratio that meets the Company's management and risk policies.

Financial instruments per category

Below are the Company's financial instruments by category:

	As of December 31, 2018	2017
Cash and cash equivalents	$ 2,249,155	$ 1,257,803
Restricted cash	93,908	161,955
Financial assets at amortized cost (1):		
Trade and other accounts receivable	2,908,133	2,852,437
Financial assets at fair value with changes through profit or loss (1)		
Financial instruments (zero strike call)	129,075	164,278
Derivative financial instruments (2)	23,591	61,913
Total financial assets	$ 5,403,862	$ 4,498,386
Financial liabilities at amortized cost (1):		
Current debt	$ 465,828	$ 1,378,934
Trade payables, related parties and sundry creditors	5,412,913	5,084,307
Non-current debt	15,156,918	19,043,736
Other non-current accounts payable	4,033	713,602
Financial liabilities measured at fair value with changes in results:		
Derivative financial instruments (2)	39,258	-
Total financial liabilities	$21,078,950	$26,220,579

(1) As described in Note 3b, the Company had no impacts associated with the introduction of the new category of financial assets measured at fair value through other comprehensive income, derived from the adoption of IFRS 9. Therefore, all financial assets that were measured at fair value as of January 1, 2018 thereon, were classified as financial assets measured at fair value through profit or loss. Therefore, the comparative information is appropriate, since it reflects the consistency in the recognition and measurement principles for all reporting periods.

(2) The Company designated the derivative financial instruments that comprise this balance, as hedges for accounting purposes, in accordance with what is described later in Note 4.

Fair value of financial assets and liabilities valued at amortized cost

The amount of cash and cash equivalents, trade and other accounts receivable, other current assets, trade payables and other accounts payable, current debt, current provisions and other current liabilities approximate their fair value since their maturity date is less than twelve months. The net carrying amount of these accounts represents the expected cash flow at December 31, 2018 and 2017.

The carrying amount and estimated fair value of financial assets and liabilities valued at amortized cost is presented below:

	As of December 31, 2018		As of December 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities:				
Debt (*)	$14,974,979	$14,212,680	$19,775,122	$18,039,800
Long-term accounts payable to Alfa	-	-	713,602	709,735

(*) The carrying amount of debt, for purposes of calculating its fair value, is presented gross of interest payable and issuance costs.

The estimated fair values as of December 31, 2018 and 2017 were determined based on discounted cash flows, using rates that reflect a similar credit risk depending on the currency, maturity period and country where the debt was acquired, regarding financial liabilities with financial institutions, finance leases, other liabilities and related parties. The primary rates used are the Interbank Equilibrium Interest Rate ("TIIE" for its acronym in Spanish) for instruments in Mexican pesos and London Interbank Offer Rate ("LIBOR") for instruments in U.S. dollars. In the case of Senior Notes issued in international markets, the Company uses the market price of such Notes at the date of the consolidated financial statements. For purposes of disclosure, measurement at fair value of financial assets and liabilities valued at amortized cost is deemed within Level 1 and 2 of the fair value hierarchy.

Market risk

(i). Exchange rate risk

The Company is exposed to the exchange risk arising from exposure of its currency, mainly with respect to the U.S. dollar. Axtel's indebtedness and part of its accounts payable are stated in U.S. dollars, which means that it is exposed to the risk of variations in the exchange rate.

The Company's interest expense on the dollar debt, stated in Mexican pesos in the Axtel consolidated financial statements, varies with the movements in the exchange rate. Depreciation of the peso gives rise to increases in the interest expense recorded in pesos.

The Company records exchange gains or losses when the Mexican peso appreciates or depreciates against the U.S. dollar. Due to the fact that the Company's monetary liabilities denominated in dollars have exceeded (and are expected to continue exceeding) Axtel's monetary assets stated in that same currency, depreciation of the Mexican peso to the U.S. dollar will give rise to exchange losses.

The Company has the following assets and liabilities in foreign currency in relation to the functional currency of its subsidiaries, translated to thousands of Mexican pesos at the closing exchange rate as of December 31, 2018:

	USD (translated to thousands of MXP)
Financial assets	$ 855,005
Financial liabilities	(12,422,016)
Foreign exchange monetary position	$(11,567,011)

During 2018 and 2017, Axtel contracted several derivative financial instruments, mainly forwards, to hedge this risk. These derivatives have been designated at fair value with changes through profit or loss for accounting purposes as explained in the next section of this note.

Based on the financial positions in foreign currency maintained by the Company, a hypothetical variation of 10% in the MXN/USD exchange rate and keeping all other variables constant, would result in an effect of $1,156,701 on the consolidated statement of income and shareholders' equity.

Financial instruments and derivative financial instruments

Financial instruments

As of December 31, 2018 and 2017, the Company has entered into Over the Counter (OTC) transaction agreements with Bank of America Merrill Lynch (BAML) and Corporativo GBM, S. A. B. de C. V. (GBM) denominated "Zero Strike Call" or options, at a price closely resembling zero. The asset underlying these instruments is the market value of Axtel's CPOs. The contracts signed prior to October 2016 can only be settled in cash. As from that date, the term of the contracts yet to be settled was extended and as a result of this negotiation, the settlement method can be in cash or in shares, as decided by the Company. The original term of these contracts is 6 months and can be extended by mutual agreement between the parties; however, as this is an American type option, the Company can exercise it at any given time prior to the date of maturity.

According to the contracts, in case of deciding for payment in cash, the amount to be settled will be calculated as per the following formula: *Number of options per option right per (reference price - exercise price).*

Where:

Number of options = defined in the contract

Right of option = defined as 1 "share" per option, defining "share" as Bloomberg Code AxtelCPO MM.

Reference price = "The price per share that GBM receives upon settling the position of the hedges thereof, under commercially reasonable terms, discounting commissions and taxes".

Exercise price = 0.000001 pesos

The Company determined the classification and measurement of these contracts as financial assets at fair value with changes through profit or loss.

As of December 31, 2018 and 2017, the lending position of the options represents the maximum amount of its credit exposure, as showed below:

Counterparty	Notional amount	Agreement beginning date	Type of underlying asset	Fair value 2018	Fair value 2017
Bank of America Merrill Lynch	30,384,700	2010 y 2009	CPO's Axtel	$ 90,243	$114,854
Corporativo GBM, S. A. B. de C. V.	13,074,982	2015 y 2014	CPO's Axtel	38,832	49,424
				$129,075	$164,278

For the year ended December 31, 2018, the changes in fair value of the Zero Strike Calls gave rise to an unrealized loss of $35,202 (unrealized loss of $11,300 for the year ended December 31, 2017), recognized in the consolidated statement of income within financial income and expenses.

Derivative financial instruments

Beginning on January 1, 2018, the Company designated its derivative financial instruments contracted during the year as cash flow accounting hedges. As of December 31, 2018, the Company maintained the following derivative financial instruments:

a. Interest Rate Swap (IRS) with the purpose of mitigating risks associated with the variability of its interest rates. The Company maintains interest-bearing liabilities at variable rates, which is why it is exposed to the variability of the reference interest rate (TIIE). Therefore, the Company entered into an IRS and hedged the interest payments associated with two debt instruments; the conditions of the derivative financial instrument and the considerations of its valuation as a hedging instrument are mentioned below:

Characteristics	Swap Interest Rate
Currency	MXN
Notional	$3,380,000
Coupon	TIIE 28
Coupon	8.355%
Maturity	December 15, 2022
Swap book value	$ 23,591
Change in the fair value of the swap to measure ineffectiveness	$ 24,477
Reclassification from OCI to income	$214
Recognized in OCI net of reclassifications	$(23,804)
Ineffectiveness recognized in income	-
Change in the fair value of the hedged item to measure ineffectiveness	$(25,031)

For accounting purposes, the Company has designated the IRS described above as a cash flow hedge to mitigate interest rate volatility of two financial liabilities, formally documenting the relationship, establishing the objectives, management's strategy to hedge the risk, the hedging instrument identified, the hedged item, the nature of the risk to be hedged and the methodology of used to evaluate the hedge effectiveness.

As of December 31, 2018, the results of the effectiveness of this hedge confirms that the hedge relationship is highly effective, given that the changes in the fair value and cash flows of the hedged item are compensated in the range of effectiveness established by the Company. The prospective effectiveness test resulted in 99%, confirming that there is an economic relationship between the hedging instruments and the hedged instrument. The method used by the Company is to offset cash flows using a hypothetical derivative, which consists of comparing the changes in the fair value of the hedging instrument with the changes in the fair value of the hypothetical derivative that would result in a perfect coverage of the covered item.

According to the amount described and the way in which the derivative cash flows are exchanged, for this hedging strategy, the average hedge ratio is 95%. In this hedge relationship, the source of ineffectiveness is mainly credit risk.

b. Forwards of accounting hedge with the objective of covering the exposure to the USD / MXN exchange rate variability.

As of December 31, 2017, the Company held forward contracts to hedge the exchange risk of the fluctuation of the dollar with respect to the Mexican peso. The fair value of these derivative financial instruments, classified for trading, was of $61,913.

Because the Company has the Mexican peso (MXN) as the functional currency and maintains obligations in USD, it is exposed to foreign exchange risk. Therefore, it has designated forward contracts as accounting hedges, where the hedged item is represented by obligations in USD and by the exchange fluctuation of the bond; the conditions of the derivative financial instruments and the considerations of their valuation as hedging instruments are mentioned below:

Characteristics	**Forwards**
Total notional	US$93,868
Currency	USD
Average strike	20.54 MXN/USD
Maturity	January-July 2019
Forward's book value	$(39,258)
Change in the fair value of the forwards to measure ineffectiveness	$(39,258)
Reclassification from OCI to income	$4,316
Recognized in OCI net of reclassifications	$35,762
Ineffectiveness recognized in income	-
Change in the fair value of the hedged item to measure ineffectiveness	$39,258

In measuring of the effectiveness of these hedges, the Company determined that they are highly effective because the changes in the fair value and cash flows of each hedged item are compensated within the range of effectiveness established by management. The prospective effectiveness test for the USD / MXN exchange rate ratio resulted in 100%, confirming that there is an economic relationship between the hedging instruments and the instruments hedged. In addition, both the credit profile of the Company and the counterparty are good and are not expected to change in the medium term; therefore, the credit risk component is not considered to dominate the hedging relationship. The method that was used to evaluate the effectiveness is through a qualitative evaluation comparing the critical terms between the hedging instrument and the hedged instrument.

According to the notional amounts described and the way in which the flows of the derivatives are exchanged, the average coverage ratio for the USD / MXN exchange rate ratio is 46%. If necessary, a rebalancing will be done to maintain this relationship for the strategy.

The source of ineffectiveness can be mainly caused by the difference in the settlement date of the hedging instruments and the hedged items, and that the budget becomes less than the hedging instruments. For the year ended December 31, 2018 and 2017, no ineffectiveness was recognized in gain or loss.

Interest rate and cash flow risk

The Company's interest rate risk arises from long-term loans. Loans at variable rates expose the Company to interest rate risks in cash flows that are partially offset by cash held at variable rates. Loans at fixed rates expose the Company to interest rate risk at fair value.

As of December 31, 2018, 33% of Axtel's total debt generates variable interest rates while the remaining 67% generates fixed interest rates.

The Company analyzes its exposure to interest rate risk on a dynamic basis. Several scenarios are simulated, taking into account the refinancing, renewal of existing positions, financing and alternative coverage. Based on these scenarios, the Company calculates the impact on the annual result of a change in the interest rate defined for each simulation, using the same change in the interest rate for all currencies. The scenarios are produced only for liabilities that represent the main positions that generate the highest interest.

Axtel's results and cash flows can be impacted if additional financing is required in the future when interest rates are high in relation to the Company's current conditions.

As of December 31, 2018, if the interest rates on variable rate loans were increased or decreased by 100 basis points, the interest expense would affect the results and stockholders' equity by $51,335 and $(51,335), respectively.

Credit risk

Credit risk represents the risk of financial loss for the Company, if a customer or counterpart of a financial instruments defaults on its contractual obligations, mainly in connection with accounts receivable from customers, as well as from investment instruments.

Account receivables

The Company evaluates and aggregates groups of clients that share a credit risk profile, in accordance with the service channel in which they operate, in line with business management and internal risk management.

The Company is responsible for managing and analyzing the credit risk for each of its new customers prior to establishing the terms and conditions of payment to offer. Credit risk arises from exposure of credit to customers, including accounts receivable. If there is no independent rating in place, the Company evaluates the credit risk pertaining to its customers, taking into account the financial position, past experience and other factors such as historical lows, net recoveries and an analysis of accounts receivable balances aging with reserves that are usually increased to the extent the accounts receivable increases in age. The credit risk concentration is moderate due to the number of unrelated clients.

Axtel determines its allowance for impairment of accounts receivable taking into account the probability of recovery, based on past experiences, as well as current collection trends and overall economic factors. Accounts receivable are entirely reserved when there are specific collection problems; based on past experience. Moreover, collection problems such as bankruptcy or catastrophes are also taken into account.

Accounts receivable are analyzed monthly, and the allowance for impairment of accounts receivable is adjusted in profit or loss.

Additionally, the Company performs a qualitative evaluation of economic projections, in order to determine the possible impact on probabilities of default and the recovery rate assigned to its customers. Finally, in the evaluation of the derecognition of an account receivable, the Company evaluates whether there is any current expectation of recovery of the asset, before proceeding to execute the corresponding derecognition.

During the year ended December 31, 2018, there have been no changes in estimation techniques or assumptions.

Axtel conducts an economic evaluation of the efforts necessary to initiate legal proceedings for the recovery of past-due balances.

Other than Companies A and B, which are the Company's main customers, the Company has no significant exposure to credit risk involving a single customer or group of customers with similar characteristics. A group of customers is considered to have similar characteristics when they are related parties. The credit risk concentration of companies A and B must not exceed 20% of the gross amount of financial assets at any given moment during the year. The credit risk concentration of any other customer must not exceed 5% of the gross amount of monetary assets at any given moment during the year.

Company A accounts for 1% and 1% of the Company's total accounts receivable as of December 31, 2018 and 2017, respectively. Additionally, revenues associated to Company A for the years ended December 31, 2018 and 2017 was 6% and 6%, respectively.

Company B accounts for 6% and 2% of the Company's total accounts receivable as of December 31, 2018 and 2017, respectively. Additionally, revenues related to Company B for the years ended December 31, 2018 and 2017 was 8% and 7%, respectively.

As of December 31, 2018 and 2017, the allowance for impairment totaled $2,172,343 and $2,089,484 respectively. Axtel considers this allowance to be sufficient to cover for the probable loss of accounts receivable; however, it cannot ensure that it will not need to be increased.

Investments

The Company's policies for managing cash and temporary cash investments are conservative, which allows for minimizing risk in this type of financial asset, taking into account also that operations are only conducted with financial institutions with high credit ratings.

The Company's maximum exposure to credit risk is equivalent to the total carrying amount of its financial assets.

Liquidity risk

The Company's finance department continuously monitors the cash flows' projections and the Company's liquidity requirements, ensuring that cash and investments in marketable securities are sufficient to meet operating needs.

The Company regularly monitors and makes its decisions based on not violating its limits or covenants established in its debt contracts. Projections consider the Company's financing plans, compliance with covenants, compliance with minimum internal liquidity ratios and legal or regulatory requirements.

Management's responsibility with respect to liquidity risk corresponds to the Company's board of directors, which has established a general framework for proper handling of liquidity risk in the short, medium and long term. The Company manages liquidity risks, maintaining a proper level of reserves, use of credit lines from banks, and is vigilant of real and projected cash flows.

The following table includes the Company's derivative and non-derivative financial liabilities grouped according to maturity from the reporting date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are required to understand the terms of the Company's cash flows.

The figures shown in the chart are the non-discounted contractual cash flows.

	Less than 1 year	**Between 1 and 5 years**	**More than 5 years**
December 31, 2018			
Current debt	$ 123,847	$ -	$ -
Trade payable, related parties and creditors	7,938,944	-	-
Derivative financial instruments	39,258	-	-
Non-current debt	-	2,275,469	12,699,510
Finance leases	341,981	398,133	-
Non-accrued interest payable	1,222,225	4,410,428	1,629,496

The Company expects to meet its obligations with the cash flows provided by operations and/or cash flows provided by its main shareholders. Furthermore, the Company has access to credit lines as mentioned in Note 16.

Fair value hierarchy

The following is an analysis of financial instruments measured in accordance with the fair value hierarchy. Three different levels are used as presented below:

- Level 1: Quoted prices for identical instruments in active markets.
- Level 2: Other valuations including quoted prices for similar instruments in active markets, which are directly or indirectly observable.
- Level 3: Valuations made through techniques where one or more of their significant data inputs are unobservable.

The following table presents the Company's assets and liabilities that are measured at fair value as of December 31, 2018 and 2017:

	As of December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Zero strike calls	$129,075	$ -	$ -	$129,075
Forwards	-	(39,258)	-	(39,258)
Interest rate swap	-	23,591	-	23,591
	$129,075	$ (15,667)	$ -	$113,408

	As of December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Zero strike calls	$164,278	$ -	$ -	$164,278
Forwards	-	61,913	-	61,913
	$164,278	$ 61,913	$ -	$226,191

There were no transfers between Level 1 and 2 or between Level 2 and 3 during the period.

The specific valuation techniques used to value financial instruments include:

- Market quotations or quotations for similar instruments.
- The fair value of forward exchange agreements is determined using exchange rates at the closing balance date, with the resulting value discounted at present value.
- Other techniques such as the analysis of discounted cash flows, which are used to determine fair value of the remaining financial instruments.

5. Critical accounting estimates and significant judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

a. Long-lived assets

The Company estimates the useful lives of long-lived assets in order to determine the depreciation and amortization expenses to be recorded during the reporting period. The useful life of an asset is calculated when the asset is acquired and is based on past experience with similar assets, considering anticipated technological changes or any other type of changes. Were technological changes to occur faster than estimated, or differently than anticipated, the useful lives assigned to these assets could have to be reduced. This would lead to the recognition of a greater depreciation and amortization expense in future periods. Alternatively, these types of technological changes could result in the recognition of a charge for impairment to reflect the reduction in the expected future economic benefits associated with the assets.

The Company reviews depreciable and amortizable assets on an annual basis for signs of impairment, or when certain events or circumstances indicate that the book value may not be recovered during the remaining useful life of the assets. For intangible assets with an indefinite useful life, the Company performs impairment tests annually and at any time that there is an indication that the asset may be impaired. To test for impairment, the Company uses projected cash flows, which consider the estimates of future transactions, including estimates of revenues, costs, operating expenses, capital expenditures and debt service. In accordance with IFRS, discounted future cash flows associated with an asset or CGU are compared to the book value of the asset or CGU being tested to determine if impairment exists whenever the aforementioned discounted future cash flows are less than its book value. In such case, the carrying amount of the asset or group of assets is reduced to its value in use, unless its fair value is higher.

b. ***Estimated impairment of goodwill and intangible assets with indefinite useful lives***

The Company conducts annual tests to determine whether goodwill and intangibles assets with indefinite useful lives have suffered any impairment (Note 11). For impairment testing, goodwill and intangibles assets with indefinite lives is allocated with those cash generating units (CGUs) of which the Company has considered that economic and operational synergies of the business combinations are generated. The recoverable amounts of the groups of CGUs were determined based on the calculations of their value in use, which require the use of estimates, within which, the most significant are the following:

- Estimation of future gross and operating margins according to the historical performance and expectations of the industry for each CGU group.
- Discount rate based on the weighted cost of capital (WACC) of each CGU or CGU group.
- Long-term growth rates.

c. ***Recoverability of deferred tax assets***

The Company has applicable tax-loss carryforwards, which can be used in the following years until maturity expires (See Note 18). Based on the projections of income and taxable income that the Company will generate in the following years through a structured and robust business plan, management has considered that current tax losses will be used before they expire and, therefore, it was considered appropriate to recognize a deferred tax asset for such losses.

d. ***Commitments and contingencies***

The Company exercises its judgment in measuring and recognizing provisions and the exposures to contingent liabilities related to pending litigation or other pending claims subject to negotiation for liquidation, mediation, arbitrage or government regulation, as well as other contingent liabilities. The Company applies its judgment to evaluate the probability that a pending claim is effective, or results in recognition of a liability, and to quantify the possible range of the liquidation. Due to the uncertainty inherent to this evaluation process, actual losses could differ from the provision originally estimated.

Contingencies are recorded as provisions when a liability has probably been incurred and the amount of the loss can be reasonably estimated. It is not practical to conduct an estimate regarding the sensitivity to potential losses, of all other assumptions have been made to record these provisions, due to the number of underlying assumptions and to the range of reasonable results possible, in connection with the potential actions of third parties, such as regulators, both in terms of probability of loss and estimates of said loss.

e. ***Default probability and recovery rate to apply the expected credit losses model in the impairment measurement of financial assets***

The Company assigns to customers with whom it has an account receivable at each reporting date, either individually or as a group, an allowance for the probability of default in the account receivable and the estimated recovery rate, in order to reflect the cash flows expected to be received from the outstanding balances as of that date.

6. Cash and cash equivalents

Cash and cash equivalents presented in the consolidated statement of financial position consist of the following

	2018	2017
Cash on hand and in banks	$ 488,987	$ 550,408
Short-term investments	1,760,168	707,395
Total cash and cash equivalents	$2,249,155	$1,257,803

7. Restricted cash

Alestra filed a complaint with the Federal Telecommunications Institute (IFT from Spanish) in connection with a dispute on the resale interconnection rates established between Alestra and Telmex and Teléfonos del Norte ("Telnor", a subsidiary of Telmex).

The restricted cash as of December 31, 2018 and 2017 of $93,908 and $161,955, respectively, represents the trust balance over applicable disputes for 2008 and 2010 and is shown in the consolidated statement of financial position under non-current assets.

On May 10, 2018, Alestra was granted a favorable ruling and the withdrawal of the amounts contributed to the trust obtaining the proceeds of $59,005 and $19,874 in November 2018, which were recognized in the income statement.

8. Trade and other accounts receivable, net

Trade and other accounts receivable are comprised as follows:

	2018	2017
Current:		
Trade accounts receivable	$4,832,433	$4,769,317
Allowance for impairment of accounts receivable (1)	(2,172,343)	(2,089,484)
Trade accounts receivable, net	2,660,090	2,679,833
Recoverable taxes	685,748	691,665
Notes and other accounts receivable	192,938	140,902
Related parties	$55,105	31,702
	$3,593,881	$3,544,102

(1) Movements of the allowance for impairment of accounts receivables are as follows:

	2018	2017
Initial balance	$2,089,484	$1,920,753
Write-off of doubtful accounts	(31,348)	(66,614)
Allowance for doubtful accounts for the year	114,207	235,345
Ending balance	$2,172,343	$2,089,484

The increases in the allowance in 2018 for $114,207 are mainly due to the increase in the probability of default assigned to certain customers with respect to the beginning of the year, in which the new methodology for impairment of financial assets was applied. In addition, they consider the reversals of impairment that arise when an account receivable, which had previously been impaired, becomes recoverable because the customer settled the outstanding balance.

On the other hand, the write-offs of uncollectible accounts represent the losses of the balances that are considered non-recoverable in their entirety, without this implying an effect on the period results.

Finally, the Company does not have any type of guarantee or collateral that mitigates the exposure to credit risk of financial assets.

9. Inventories

As of December 31, 2018 and 2017, inventories of $104,802 and $188,885, respectively, were composed by materials and consumables.

The cost of inventories recognized as an expense and included in the cost of sales amounted to $161,390 and $199,930 for 2018 and 2017, respectively. As of December 31, 2018 and 2017, there were no inventories pledged as collateral.

10. Property, plant and equipment

	Depreciable assets					Non-depreciable assets			
	Buildings	Telecommunications network	Office equipment	Computers	Vehicles	Leasehold improvements	Land	Investments in process	Total
For the year ended December 31, 2017									
Net opening balance	$ 967,569	$ 13,536,478	$ 75,654	$ 2,390,181	$ 43,514	$ 104,629	$481,642	$2,019,784	$19,619,451
Translation effect	-	1,447	-	-	-	-	-	-	1,447
Additions	-	78,312	105	4,656	6,538	164	-	3,121,041	3,210,816
Transfers	115,194	4,337,789	48,997	(1,823,961)	364	13,054	263	(2,691,700)	-
Disposals	-	(12,928)	(184)	(1,203)	(1,465)	(331)	-	(2,057)	(18,168)
Depreciation charge recognized in the year	(27,594)	(3,263,680)	(23,692)	(181,066)	(17,050)	(24,654)	-	-	(3,537,736)
Ending balance	$1,055,169	$ 14,677,418	$100,880	$ 388,607	$ 31,901	$ 92,862	$481,905	$2,447,068	$19,275,810
As of December 31, 2017									
Cost	$1,428,354	$ 55,801,809	$517,212	$ 4,925,324	$ 389,638	$ 607,992	$481,905	$2,447,068	$66,599,302
Accumulated depreciation	(373,185)	(41,124,391)	(416,332)	(4,536,717)	(357,737)	(515,130)	-	-	(47,323,492)
Net carrying amount as of December 31, 2018	$1,055,169	$ 14,677,418	$100,880	$ 388,607	$ 31,901	$ 92,862	$481,905	$2,447,068	$19,275,810
For the year ended December 31, 2018									
Net opening balance	$1,055,169	$ 14,677,418	$100,880	$ 388,607	$ 31,901	$ 92,862	$481,905	$2,447,068	$19,275,810
Translation effect	-	(143)	-	-	-	-	-	-	(143)
Additions	-	173,668	90	3,284	2,740	13	-	2,371,685	2,551,480
Transfers	29,319	3,459,853	15,809	133,509	3,147	27,232	-	(3,668,869)	-
Transfers held for sale	-	(300,307)	(49)	(1,188)	(344)	(102)	-	(5,845)	(307,835)
Disposals		(1,432,324)	(1,376)	(3,950)	(1,290)	(572)	-	(74,201)	(1,513,713)
Depreciation charges recognized in the year	(28,305)	(3,604,028)	(21,878)	(207,955)	(15,160)	(22,749)	-	-	(3,900,075)
Ending balance	$1,056,183	$ 12,974,137	$ 93,476	$ 312,307	$ 20,994	$ 96,684	$481,905	$1,069,838	$16,105,524
As of December 31, 2018									
Cost	$1,458,435	$ 53,888,456	$519,966	$ 4,961,739	$ 192,885	$ 630,384	$481,905	$1,069,838	$63,203,608
Accumulated depreciation	(402,252)	(40,914,319)	(426,490)	(4,649,432)	(171,891)	(533,700)	-	-	(47,098,084)
Net carrying amount as of December 31, 2018	$1,056,183	$ 12,974,137	$ 93,476	$ 312,307	$ 20,994	$ 96,684	$481,905	$1,069,838	$16,105,524

Of the total depreciation expense, $2,896,444 and $2,728,105 were charged to cost of sales, $157,938 and $128,918 to selling and administrative expenses, $845,693 and $680,712 in discontinued operations in 2018 and 2017, respectively.

Projects in process mainly include telecommunications network equipment to extend the Company's infrastructure and the capitalization period is approximately twelve months.

For the years ended December 31, 2018 and 2017, the Company capitalized $27,216 and $29,377, respectively, of borrowing costs related to qualifying assets of $495,455 and $1,045,667, respectively. These amounts were capitalized based on an interest rate of 8.98% and 7.27%, respectively.

The assets in finance leases include the following amounts in which the Company is the lessee:

	2018	2017
Cost – finance leases	$982,307	$1,578,543
Accumulated depreciation	(255,060)	(919,710)
Net carrying amount	$727,247	$ 658,833

The Company has entered into non-cancellable finance lease agreements as lessee. The lease terms of the agreements entered into vary between 3 and 5 years.

11. Goodwill and intangible assets

	Definite life						Indefinite life	
	Concessions	Trademarks	Relationships with customers	Non-compete agreements	Software and licenses	Other	Goodwill	Total
Saldo inicial al 1 de enero de 2017	$ 83,278	$ 64,116	$ 205,221	$ 590,742	$ 293,502	$113,636	$488,232	$1,838,727
Additions	-	-	-	-	91,083	4,861	-	95,944
Disposal	-	-	-	-	-	(1,163)	-	(1,163)
Transfers	(2,357)	-	(46,060)	-	110,127	78,093	(68,696)	71,107
Amortization charges recognized in the year	(44,582)	(15,196)	(9,745)	(265,055)	(115,876)	(45,649)	-	(496,103)
Ending balance as of December 31, 2017	$ 36,339	$ 48,920	$ 149,416	$ 325,687	$ 378,836	$149,778	$419,536	$1,508,512
Cost	$ 797,142	$ 258,905	$ 516,600	$ 809,793	$1,523,867	$483,892	$419,536	$4,809,735
Accumulated amortization	(760,803)	(209,985)	(367,184)	(484,106)	(1,145,031)	(334,114)	-	(3,301,223)
Ending balance as of December 31, 2017	$ 36,339	$ 48,920	$ 149,416	$ 325,687	$ 378,836	$149,778	$419,536	$1,508,512
Saldo inicial al 1 de enero de 2018	$ 36,339	$ 48,920	$ 149,416	$ 325,687	$ 378,836	$149,778	$419,536	$1,508,512
Additions	-	-	-	-	228,145	237,062	-	465,207
Transfers	-	-	-	-	(572)	572	-	-
Amortization charges recognized in the year	(29,131)	(15,196)	(19,240)	(265,055)	(158,791)	(80,919)	-	(568,332)
Ending balance as of December 31, 2018	$ 7,208	$ 33,724	$ 130,176	$ 60,632	$ 447,618	$306,493	$419,536	$1,405,387
Cost	$797,142	$ 258,904	$ 516,600	$ 809,793	$1,751,440	$709,484	$419,536	$5,262,899
Accumulated amortization	(789,934)	(225,180)	(386,424)	(749,161)	(1,303,822)	(402,991)	-	(3,857,512)
Ending balance as of December 31, 2018	$ 7,208	$ 33,724	$ 130,176	$ 60,632	$ 447,618	$306,493	$419,536	$1,405,387

The intangible assets with indefinite life of the Company include only goodwill, which has been assigned to the Business segment. The rest of the intangible assets are of definite life.

Of the total amortization expense, $37,417 and $52,350 were charged to cost of sales, $530,915 and $443,753 to selling and administrative expenses in 2018 and 2017, respectively.

Company concessions

Its concessions allow the Company to provide local basic telephone service; national long-distance service, the purchase or rent of network capacity for the generation, transmission or reception of data, signals, text, script, images, voice, sound and any other type of information; rent of digital circuits; restricted TV and audio service.

The Company's principal concessions are as follows:

Service	Use	Period	Maturity
Sole concession of telecommunications and/or radio broadcasting (2)	Commercial	30 years	2046
Data transmission via satellite (2)	Commercial	30 years	2042
Local, national and international long-distance service (2)	Commercial	30 years	2026
Point-to-multipoint microwave connection (2)	Commercial	20 years	2038
Fixed to mobile wireless access (2)	Commercial	20 years	2038
Local, national and international long-distance service (1) (2)	Commercial	30 years	2025
Basic local telephone service (1) (2)	Commercial	30 years	2029
Frequency band pertaining to radio-electric spectrum (3)	Commercial	20 years	2038
Frequencies pertaining to radio-electric spectrum (3)	Commercial	20 years	2038

(1) Concessions granted to Avantel.

(2) Renewable concessions for additional periods of 20 years, provided that the Company complies with all of its obligations and the new conditions set forth in the law, and agreements are reached with respect to any new condition imposed by the IFT.

Concessions in renovation process:

(3) In 1998, Alestra obtained two concessions for point-to-point microwave connections and three point-to-multipoint concessions covering Mexico City, Monterrey and Guadalajara.

The Company provides services under a value-added plan, which are authorized independently from said concessions, such as: Internet access.

In this regard, the Company expects the concessions to be extended, for which the IFT will require payment in advance of the corresponding consideration, which will be set taking into account, among other criteria, the bandwidth of the frequencies of the radio-electric spectrum under concession, the geographic coverage of the concession and the services that can be provide in said bands.

The Company must comply with the new conditions issued in this regard by the IFT. The current conditions are:

i. Submitting a request to the IFT within a year prior to the start of the last fifth of the term of the concession;

ii. Complying with the licensee's obligations in the terms of the Federal Telecommunications and Radio Broadcasting Law (LFTR from Spanish) and other applicable regulations, and the concession title;

iii. Acceptance, by the Concession holder, of the new conditions for renewal thereof, as per the provisions of the IFT.

To date, the IFT has established no amount for the corresponding compensation, and has not yet determined the aforementioned conditions to be met.

From 2013 to date, the Company has submitted a request to the IFT to extend the concessions for the use and exploitation of frequency bands pertaining to the radio-electric spectrum. In the event said concessions are renewed, this will not be considered an additional period in the amortization of prior concessions.

It should be mentioned that this situation is not particular to the Company, but rather, of all licensees having obtained a concession for the use and exploitation of frequency bands pertaining to the radio-electric spectrum in 1998, 1999 and 2000.

Telecommunications network capacity consists of the right to use fiber optics, contracted with a private party on December 10, 2012 for a 10-year period.

Impairment testing of goodwill

Goodwill is comprised of the amount paid in excess of the carrying amount of net assets and liabilities of $419,536, which were allocated to the business segment.

At the date of issuance of these consolidated financial statements, no impairment has been identified.

Impairment sensitivity analysis for goodwill and intangibles

As of December 31, 2018, the Company carries out a sensitivity analysis on the impact of a possible increase of one percentage point in the discount rate and a decrease in the long-term growth rate, and no impairment loss resulted from this sensitivity analysis.

The following describes the discount rates and long-term growth rates used for the years ended December 31, 2018 and 2017:

	2018	2017
Discount rate, after tax	10.5%	10.1%
Long-term growth rate	3.9%	4.9%

12. Other non-current assets

	2018	2017
Investments of shares	$294,535	$139,427
Prepaid connection leases	34,000	40,637
Guarantee deposits	83,850	65,881
Prepaid maintenance	220,150	-
Other	83,752	111,128
Total other non-current assets	$716,287	$357,073

13. Trade and other accounts payable

Trade and other accounts payable are analyzed as follows:

	2018	2017
Current:		
Trade accounts payable	$3,547,032	$3,881,152
Related parties	1,865,881	1,023,866
Value added tax and other federal and local taxes payable	1,556,036	834,820
Accrued expenses payable	186,116	179,289
Other	268,913	176,597
	$7,423,978	$6,095,724
Non-current:		
Related parties	$ 4,033	$ 713,602

14. Provisions

	Litigation	Restructuring (1)	Total
As of January 1, 2017	$ 50,620	$ 79,027	$ 129,647
Additions	18,391	99,517	117,908
Payments	(50,620)	(79,027)	(129,647)
As of December 31, 2017	$ 18,391	$ 99,517	$ 117,908
Additions	6,238	288,755	294,993
Payments	(1,000)	(99,517)	(100,517)
As of December 31, 2018	$ 23,629	$ 288,755	$ 312,384

(1) Provisions due to restructuring include indemnities to obtain operational efficiencies.

Provisions as of December 31, 2018 and 2017 are short-term.

15. Deferred income

Deferred income movements during the year are shown as follows:

	2018	2017
Beginning balance	$ 312,121	$1,022,605
Increases	1,308,057	435,109
Recognized income of the year	(1,083,726)	(1,145,593)
Ending balance	$ 536,452	$ 312,121

16. Debt

	2018	2017
Banco Nacional de Comercio Exterior, S.N.C	$ 3,263,529	$ 3,562,240
Syndicated loan	1,570,000	6,108,670
Senior Notes (3)	9,841,450	9,867,700
Export Development Canada (EDC)	300,000	-
BBVA Bancomer, S. A. de C. V.	-	300,000
Finance lease with Telmex (1) (3)	-	266,530
Other finance leases (2) (3)	740,113	369,982
Accrued interest payable	123,847	145,681
Issuance costs	(216,193)	(198,133)
Total debt	15,622,746	20,422,670
Current portion of debt	(465,828)	(1,378,934)
Non-current debt	$15,156,918	$19,043,736

(1) Indefeasible Right of Use (IRU) lease entered into with Teléfonos de México, S. A. B. de C. V. for an approximate amount of $708,041 which was canceled in October 2018

(2) Finance leases entered into with banking institutions at approximate rates of 6% for those denominated in U.S. dollars and the interbank interest rate (TIIE) plus 3% and 5.5% for those denominated in Mexican pesos, with maturities ranging between 1 and 3 years.

(3) Non-bank borrowings.

The terms, conditions and carrying amounts of debt are as follows:

			Interest rate				As of December 31,	
	Country	Currency	Contractual	Effective	Maturity date	Interest payment periodicity	2018	2017
Bancomext	Mexico	USD	Libor + 3%	-	17/01/2024	Quarterly	$ -	$ 3,356,004
Bancomext(1)	Mexico	MXP	TIIE + 2.10%	10.34%	30/08/2028	Quarterly	3,263,529	-
Syndicated loan	Mexico	MXP	TIIE+2.75%	11.04%	15/12/2022	Monthly	1,570,000	5,708,670
Senior Notes	International	USD	6.38%	6.64%	14/11/2024	Semi-annually	9,841,450	9,867,700
EDC	Canada	MXP	TIIE + 1.19%	10.51%	01/06/2021	Monthly	300,000	-
Total bank loans							14,974,979	18,932,374
Debt issuance costs							(216,193)	(198,133)
Finance leases and other							398,132	309,495
Total non-current debt							$15,156,918	$ 19,043,736
Current maturities of financial leases and others							465,828	1,378,934
Total Debt							$15,622,746	$ 20,422,670

(1) Debt restructuring agreement to exchange the original debt of US$171,000 to a new debt of $3,263,000. See Note 2d.

As of December 31, 2018, annual maturities of non-current debt are as follows:

	2020	2021	2022	2023 onwards	Total
Bank loans	$ 19,778	$389,005	$1,698,563	$ 3,026,182	$ 5,133,528
Senior Notes	-	-	-	9,841,450	9,841,450
Financel leases	232,445	79,204	54,044	32,440	398,133
	$252,223	$468,209	$1,752,607	$12,900,072	$15,373,111

Issuance costs of debentures and financings are directly attributable to issuance of the Company's debt and are amortized according to the effective interest rate over the lifetime of the debt.

As of December 31, 2018, the Company has unused contractual credit lines of US$34,758 ($684,145) and $7,000.

Fair value of non-current debt is disclosed in Note 4. Estimated fair values as of December 31, 2018 and 2017 were determined using rates that reflect a similar credit risk depending on the currency, maturity period and country where the debt was acquired, regarding financial liabilities with financial institutions, finance leases, other liabilities and related parties. In the case of Senior Notes placed in international markets, the Company uses the market price of such Notes at the date of the consolidated financial statements. Measurement at fair value of such financial liabilities valued at amortized cost is deemed within Level 1 and 2 of the fair value hierarchy.

Liabilities related to finance leases are effectively covered by the rights of the leased asset to be returned to the lessor in the event of default.

	2018	2017
Minimum future payments of finance leases, including non-accrued interest		
- Less than 1 year	$380,669	$360,570
- Over 1 year and less than 5 years	433,336	327,296
Non-accrued interest of finance leases	(73,892)	(51,354)
Present value of finance lease liabilities	$740,113	$636,512

The present value of finance lease liabilities is as follows:

	2018	2017
Less than 1 year	$341,980	$327,017
Over 1 year and less than 5 years	398,133	309,495
	$740,113	$636,512

Covenants:

Loan and debt issuance agreements currently in effect contain restrictions for the Company, mainly to comply with certain financial ratios, delivery of financial information, keeping accounting records, compliance with applicable laws, rules and provisions. Failure to comply with these requirements within a specific term to the satisfaction of the creditors could be considered a cause for early termination.

Financial ratios to be fulfilled include the following:

a. Interest coverage ratio: which is defined as adjusted EBITDA (see Note 28) divided by financial expenses for the last four quarters of the period analyzed. This factor cannot be less than 2.75 times from the execution date of the contract until the second quarter of 2019 and cannot be less than 3.0 times from there on.

b. Leverage ratio: which is defined as net consolidated debt (current and non-current debt, net of debt issuance costs, less unrestricted cash and cash equivalents) divided by adjusted EBITDA (see Note 28) for each quarter.

   As of December 31, 2017 and until December 31, 2018, this factor cannot exceed 4.25 times. For each quarter of 2019, this factor cannot exceed 4.00 times; from the first quarter of 2020 and from there on this factor cannot exceed 3.50 times.

* For Senior Notes, the leverage ratio cannot exceed 4.25 times.

Covenants contained in credit agreements establish certain obligations, conditions and exceptions that require or limit the capacity of the Company to:

- Grant liens on assets;
- Enter into transactions with affiliates;
- Conduct a merger in which the Company is dissolved, unfavorable sale of assets; and
- Pay dividends.

As of December 31, 2018 and as of the date of issuance of these consolidated financial statements, the Company and its subsidiaries complied satisfactorily with the covenants established in the credit agreements.

17. Employee benefits

Defined contributions plans:

The Company has a defined contribution plan. According to the structure of this plan, the reduction on labor liabilities is reflected progressively. The Company has established irrevocable trust funds for payment of the defined contribution plan. Due to the changes made in the 2014 tax reform, the Company interrupted the deposits to the trust; however, it has maintained this benefit and recognized labor obligations of $246,145 and $242,207 as of December 31, 2018 and 2017, respectively.

Defined benefit plans:

The valuation of employee benefits for retirement plans is based primarily on their years of service, current age and estimated salary at retirement date.

Following is a summary of the primary financial data of these employee benefits:

	2018	2017
Obligations in the consolidated statement of financial position:		
Pension benefits	$341,510	$340,821
Post-employment medical benefits	4,382	5,668
Defined contribution additional liability	246,145	242,207
Liability recognized in the consolidated statement of financial position	$592,037	$588,696
Charge in the consolidated statement of income for:		
Pension benefits	$ 49,936	$ 46,757
Medical benefits to retirement	502	454
	$ 50,438	$ 47,211
Remeasurements for accrued employee benefit obligations recognized in other comprehensive income for the year	$ 60,405	$ 10,859

Pension and post-employment medical benefits

The Company operates defined benefit pension plans based on employees' pensionable remuneration and length of service. Most of the plans are externally funded. The Company operates post-employment medical benefit plans. The accounting method, assumptions and frequency of the valuations are similar to those used for defined benefits in pension schemes. These plans are not funded.

The amounts recognized in the consolidated statement of financial position are determined as follows:

	2018	2017
Present value of obligations equal to the liability in the consolidated statement of financial position	$592,037	$588,696

The movement in the defined benefit obligation during the year was as follows:

	2018	2017
As of January 1	$346,489	$306,919
Current service cost	25,489	24,063
Financial cost	24,949	23,148
Remeasurements:		
Loss from changes in financial assumptions	(60,405)	10,859
Past service cost	28,018	5,168
Benefits paid	(7,241)	(23,016)
Reductions	(11,407)	(652)
As of December 31	$345,892	$346,489

The primary actuarial assumptions were as follows:

	2018	2017
Discount rate	9.50%	7.25%
Future wage increase	4.50%	4.50%
Medical inflation rate	6.50%	6.50%

The sensitivity analysis of the main assumptions for defined benefit obligations were as follows:

	Impact on defined benefit obligations		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.0%	$(19,214)	$21,906
Medical inflation rate	1.0%	$ (5,129)	$ 3,771

The above-mentioned sensitivity analyses are based on a change in an assumption, while all other assumptions remain constant. In practice, this is not likely to happen, and there may be changes in other correlated assumptions. When calculating the sensitivity of pension plans to principal actuarial assumptions, the same method has been used as if it involved calculation of liabilities pertaining to pension benefit plans recorded in the consolidated statement of financial position. The methods and type of assumptions used in preparing the sensitivity analysis suffered no changes with respect to the prior period.

18. Income taxes

a) Income taxes recognized in the consolidated statement of income:

	2018	2017
Current income tax	$(65,148)	$ (75,827)
Deferred income tax	33,815	(171,709)
Prior years' adjustment	(6,005)	(40,008)
Income tax (expense)	$(37,338)	$(287,544)

b) The reconciliation between the statutory and the effective income tax rates was as follows:

	2018	2017
(Loss) income before taxes	$(969,323)	$ 20,854
Statutory rate	30%	30%
Taxes at statutory rate	290,797	(6,256)
(Plus) less tax effect on:		
Tax effects of inflation	207,404	95,431
Non-deductibles	(593,250)	(268,136)
Other differences, net	57,711	(108,583)
Total income tax charged to income	$ (37,338)	$(287,544)
Effective rate	4%	1378%

c) The detail of deferred income tax asset (liability) is as follows:

	2018	2017
Tax loss carryforwards	$1,420,015	$2,940,991
Allowance for doubtful accounts	602,503	573,271
Property, plant and equipment	463,368	392,463
Provisions and other	363,087	219,427
Long-term debt	-	(546,735)
Intangible assets and other	24,102	168,294
Deferred tax asset	$2,873,075	$3,747,711
Property, plant and equipment	$ (3,753)	$ (4,433)
Intangible assets and other	(254)	(6,215)
Deferred tax liability	$ (4,007)	$ (10,648)

Deferred income tax assets are recognized over tax loss carryforwards to the extent the realization of the related tax benefit through future tax income is likely. Tax losses as of December 31, 2018 for which a tax asset was recognized amount to $4,733,382. The Company reduced tax losses by $278,958 as their realization was not considered probable.

Tax losses as of December 31, 2018 expire in the following years:

Year of expiration	Amount
2021	$ 415,670
2022	70,088
2023	139,803
2024 onwards	4,386,779
	$5,012,340

d) The tax charge/(credit) related to other comprehensive income is as follows:

	2018			2017		
	Before taxes	Tax charged (credited)	After taxes	Before taxes	Tax charged (credited)	After taxes
Effect of currency translation	$ (86)	$ -	$ (86)	$ (1,212)	$ -	$(1,212)
Derivative financial instruments of hedging	(11,958)	3,588	(8,370)	-	-	-
Remeasurements of employee benefits	60,403	(18,123)	42,280	(10,859)	3,257	(7,602)
	$48,359	$(14,535)	$33,824	$(12,071)	$3,257	$(8,814)

19. Shareholders' equity

At the Ordinary General Shareholders' Meeting on March 10, 2017, the shareholders agreed to decrease the Company's minimum fixed capital stock in the aggregate amount of $9,868,332 in order to absorb prior years' retained losses in the aggregate amount of $10,513,042, and having previously applied the additional paid-in capital of $644,710. This capital reduction was carried out without modifying or reducing the number of shares that represent the Company's capital stock.

On July 18, 2017 and in accordance with the resolutions adopted at the General Shareholders' Extraordinary Meeting held on January 15, 2016 relating to the merger of Onexa, S. A. de C. V., Axtel delivered to Alfa 1,019,287,950 Class "I" shares of Series "B", representing an additional ownership to Alfa of 2.50% in Axtel. The shares were previously held in Axtel's Treasury and their payment to Alfa cancelled the liability previously recognized by Axtel as consideration for the merger.

After the above-mentioned events, the Company's capital stock as of December 31, 2017 was $464,368 and was comprised of 20,249,227,481 Class "I", Series "B" common nominative shares, with no par value, entirely subscribed and paid in. As of that date, all series "B" shares issued by the Company were placed in a trust (CPO Trust).

Movements on the number of common shares of the Company during the year was as follows:

	Number of shares
Beginning balance January 1, 2017	19,229,939,531
Share issued to Alfa	1,019,287,950
Ending balance December 31,2017	20,249,227,481
Movements of the year	-
Beginning and ending balance	20,249,227,481

Net income for the year is subject to the legal provision requiring at least 5% of the profit for each period to be set aside to increase the legal reserve until it reaches an amount equivalent to one fifth of the capital stock.

In accordance with the new Mexican Income Tax Law effective on January 1, 2014, a 10% tax on income generated starting 2014 on dividends paid to foreign residents and Mexican individual tax payers, when these correspond to taxable income generated starting 2014. It also establishes that for fiscal years 2001 to 2013, net taxable income will be determined as established in the Income Tax Law that was effective in the corresponding fiscal year.

Dividends paid are not subject to income tax if paid from the Net Tax Profit Account (CUFIN from Spanish). Dividends exceeding CUFIN will generate income tax at the applicable rate of the period in which they are paid. This tax incurred is payable by the Company and may be credited against income tax in the same year or the following two years. Dividends paid from previously taxed profits are not subject to tax withholding or additional tax payments. As of December 31, 2018, the tax value of the CUFIN and tax value of the Capital Contribution Account (CUCA from Spanish) amounted to $552,148 and $24,589,638, respectively.

In case of capital reduction, the procedures established by the Income Tax Law provide that any surplus of shareholders' equity be given over the balances of the fiscal accounts of the capital contributed, the same tax treatment applicable to dividends.

20. Discontinued Operations

Masive Segment Disposition

On December 17, 2018, the Company signed a definitive agreement for the divestment of its fiber segment (FTTx) of the mass segment located in Monterrey, San Luis Potosí, Aguascalientes, Mexico City, Ciudad Juárez and the municipality of Zapopan, for an amount of $4,713 million pesos to Grupo Televisa SAB and subsidiaries ("Televisa"). Axtel transferred to Televisa 227,802 residential and micro-business customers, 4,432 km of fiber optic network and other assets related to the operation of the mass segment in these cities.

The FTTx business of the mass segment in the rest of the cities where there is a presence that was not included in this transaction will continue to be operated by Axtel. The Company will continue to seek attractive divestment opportunities for this asset.

The divested business subject to the transaction was classified as a discontinued operation because it met the requirements of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", so the related operations are presented separately in the consolidated statement of income for 2018 and 2017 for comparability purposes.

Condensed information related to the income statement of the discontinued operation for the year ended December 31, 2017 and for the period ended December 17, 2018:

	2018	2017
Revenues	$2,772,752	$2,968,989
Cost of sales	1,315,779	1,181,753
Gross profit	1,456,973	1,787,236
Administration and selling expenses	1,240,689	1,316,939
Operating income	216,284	470,297
Financial expenses	-	495
Income before taxes	216,284	469,802
Income taxes	64,885	140,940
Net income	151,399	328,862
Gain on sale of the discontinued operation	1,949,940	-
Income from discontinued operations, net of income taxes	$2,101,339	$ 328,862

As of the date of the transaction, the gain on sale of discontinued operations for $1,949,940, net of taxes, was determined by comparing the sale price of $4,712,821, less the net assets sold, transaction costs and tax effects for a total of $2,762,881.

Condensed information regarding the cash flows of the discontinued operation for the year ended December 31, 2017 and for the period ended December 17, 2018:

	2018	2017
Cash flows from operating activities	$1,061,978	$1,151,009
Cash flows form investment activities	3,956,544	(541,530)

21. Revenues

a. Income for services:

	2018	2017
Voice	$ 2,121,360	$ 2,509,454
Managed networks	4,492,788	4,045,312
Internet data	3,952,352	3,887,237
Administrative applications	270,578	230,344
Hosting	659,147	656,286
System integration	473,323	529,882
Equipment sale	83,571	-
Interest income	5,506	-
Security	353,183	390,899
Cloud services	233,115	186,180
Otros servicios	143,561	108,507
Total	$12,788,484	$12,544,101

b. Income by geographical areas:

	2018	2017
Mexico	$12,731,680	$12,472,217
Outside Mexico	56,804	71,884
Total	$12,788,484	$12,544,101

22. Expenses classified by their nature

Total cost of sales and selling and administrative expenses, classified by nature of the expense, were as follows:

	2018	2017
Service cost [1]	$ 3,357,117	$ 3,441,394
Employee benefit expenses (Note 25)	2,452,171	2,420,606
Maintenance	855,109	1,251,948
Depreciation and amortization	3,622,713	3,353,125
Advertising expenses	62,680	71,951
Energy and fuel consumption	336,061	318,468
Travel expenses	53,828	52,387
Operating leases	1,101,378	1,078,018
Technical assistance, professional fees and administrative services	60,688	27,597
Other	398,188	111,548
Total	$12,299,933	$12,127,042

(1) Service cost consists mainly of interconnection costs and costs related to implementation of IT solutions, including:

- Charges related to leased lines, normally paid on a per-circuit basis per month to Telmex and to other suppliers of last-mile access.
- Interconnection costs, including charges for local and resale access, paid on a per-minute basis mainly to Telmex.
- International payments to foreign operators on a per-minute basis to complete international calls originating in Mexico.

23. Other income, net

	2018	2017
Merger expenses (*)	$ -	$(312,724)
Disposals of property, plant and equipment due to damage and obsolescence	(74,574)	(11,724)
Gain on sale of property, plant and equipment (**)	226,568	841,437
Other income, net	54,935	1,309
Total other income, net	$206,929	$ 518,298

(*) As of December 31, 2017, corresponds mainly to personnel compensation of $191,226 and other merger expenses of $121,498.

(**) As of December 31, 2018 and 2017, corresponds mainly to $224,974 and $840,400 gain on the sale of telecommunication towers to MATC Digital, S. de R. L. de C. V., subsidiary of American Tower Corporation, respectively.

24. Financial result, net

	2018	2017
Financial income:		
Interest income on short-term bank deposits	$ 41,297	$ 39,286
Other financial income	10,832	17,412
Total financial income	$ 52,129	$ 56,698
Financial expenses:		
Interest expense on bank loans	$ (952,172)	$(1,131,457)
Interest expense on senior notes	(728,052)	(140,408)
Expenses related to other interest and commissions	(437)	(16,094)
Financial expenses related to employee benefits	(24,949)	(26,135)
Other financial expenses	(163,008)	(332,438)
Total financial expenses	$(1,868,618)	$(1,646,532)

	2018	2017
Exchange fluctuation gain, net:		
Gain on exchange fluctuation	$ 3,334,378	$ 4,366,749
Loss on exchange fluctuation	(3,147,490)	(3,718,469)
Exchange fluctuation gain, net	$ 186,888	$ 648,280

25. Employee benefit expenses

	2018	2017
Salaries, wages and benefits	$ 2,010,260	$ 2,023,916
Social security fees	358,557	310,911
Employee benefits	25,489	24,063
Other fees	57,865	61,716
Total	$ 2,452,171	$ 2,420,606

26. Transactions with related parties

Balances with related parties as of December 31, 2018 and 2017, were as follows:

			December 31, 2018				
			Loans received from related parties				
	Accounts receivable	Accounts payable	Amount	Interest	Currency	Expiration date MM/DD/YY	Interest rate
Holding company	$ -	$ 4,924					N/A
Holding company	-	-	$ 424,561	$ 5,944	USD	15/07/19	3%
Holding company (1)	-	-	287,300	56,780	MXP	28/02/19	TIIE + 2.25%
Holding company (1)	-	-	287,300	56,780	MXP	28/02/19	TIIE + 2.25%
Holding company (1)	-	-	204,574	40,434	USD	28/02/19	TIIE + 2.25%
Holding company (1)	-	-	204,574	40,434	USD	28/02/19	TIIE + 2.25%
Holding company	-	-	219,600	22,752	MXP	28/02/19	TIIE + 2.25%
Affiliates	55,105	9,318	4,033	585	USD		LIBOR 3M + 2.75%
Total	$55,105	$ 14,242	$1,631,941	$223,709			

			December 31, 2017				
			Loans received from related parties				
	Accounts receivable	Accounts payable	Amount	Interest	Currency	Expiration date MM/DD/YY	Interest rate
Holding company	$ -	$ 2,952					N/A
Holding company	-	-	$ 413,161	$ 5,678	USD	15/07/18	3%
Holding company (1)	-	-	287,300	27,018	MXP	28/02/18	TIIE + 2.25%
Holding company (1)	-	-	287,300	27,018	MXP	28/02/19	TIIE + 2.25%
Holding company (1)	-	-	204,574	19,238	MXP	28/02/18	TIIE + 2.25%
Holding company (1)	-	-	204,574	19,238	MXP	28/02/19	TIIE + 2.25%
Holding company	-	-	219,600	-	MXP	28/02/19	TIIE + 2.25%
Affiliates	$31,702	17,384	2,127	304	USD		LIBOR 3M + 2.75%
Total	$31,702	$ 20,336	$1,618,636	$ 98,494			

(1) Indemnification (see Note 2).

Transactions with related parties for the years ended December 31, 2018 and 2017, which were carried out in terms similar to those of arm's-length transactions with independent third parties, were as follows:

	Year ended December 31, 2018		
	Income	Costs and expenses	
	Telecommunication services	Interests	Others
Holding company	$ -	$(136,976)	$ -
Affiliates	169,445	(281)	(35,695)
Total	$ 169,445	$(137,257)	$ (35,695)

	Year ended December 31, 2017		
	Income	Costs and expenses	
	Telecommunication services	Interests	Others
Holding company	$ -	$(104,204)	$ -
Affiliates	162,792	(81)	(38,320)
Total	$ 162,792	$(104,285)	$ (38,320)

For the year ended December 31, 2018, compensation and benefits paid to the Company's main officers totaled $97,139 ($112,048 in 2017), comprised of base salary and benefits required by law, complemented by a program of variable compensation basically based on the Company's results and the market value of Alfa's shares.

27. Contingencies and commitments

As of December 31, 2018, the following commitments and contingencies exist in relation to Axtel and its subsidiaries:

I. Contingencies

Disagreements related to Interconnection with other mobile operators.

a. Radiomóvil Dipsa, S.A. de C.V. (Telcel).

In January 2018, the Company was notified of two appeal proceedings (one in which Axtel-Avantel are interested third parties and another in Alestra Comunicación) issued by Telcel against the rates issued in 2017 and used in 2018 by the Company IFT in compliance with the judgment of appeal resolved by the Second Chamber of the Supreme Court of Justice of the Nation (SCJN) within file 1100/2015.

The Company and its advisors consider that the rates prevail based on the resolutions obtained in favor of the Company, as the cost in the base to the rates and the provisions of this contingency do not exist.

b. Grupo Telefónica.

In January 2018, the Company was notified of an appeal proceeding (where Axtel-Avantel are the affected party) issued by Telefónica against the rates issued in 2017 and used in 2018 by the IFT, in compliance with the sentence of appeal 1100/2015 resolved by the Second Chamber referred to.

The Company and its advisors consider that the rates prevail based on the resolutions obtained in favor of the Company, as the cost in the base to the rates and the provisions of this contingency do not exist.

Additionally, in June 2018, the Company (where Axtel is the affected third party) was notified of an appeal trial filed by Telefónica against the rates issued in 2017 (as a Virtual Mobile Operator) for the period of 2018 by the IFT.

c. Grupo Iusacell (today AT&T).

In January 2018, the Company was notified (where Axtel is the affected third party) of an appeal trial filed by ATT against the rates issued in 2017 for the period of 2018 by the IFT. A judgment of first instance was issued in favor of the Company.

In this sense, the Company and its advisors consider that the rates will prevail, for which reason they have recognized the base cost on those rates and there are no provisions associated with this contingency.

d. Interconection agreeements with Telmex & Telnor.

i. There is a disagreement between Telmex and Avantel regarding the termination rates for long distance calls that Cofetel resolved in favor of Avantel for 2009, approving a reduction in rates. Telmex challenged this resolution before the Court, which was resolved in favor of the interests of the Company, however, Telmex filed an appeal trial in the second instance, which is in process.

ii. Regarding the lawsuit filed by Telnor, for 2009, a favorable ruling was obtained for Axtel-Avantel, with no contingency to report.

iii. In relation to the lawsuits filed by Telmex-Telnor in the Federal Court of Administrative Justice (TFJA) for rates issued 2010, these have been resolved in favor of the interests of Axtel-Avantel, Alestra, and only the appeal filed is pending by Telmex against the rates determined to Avantel for the same year.

In May 2011, Cofetel also reduced its rates for long distance calls for that year. The resolution of Telmex was filed with the SCT, but that appeal was dismissed. Telemex has challenged before the Federal Court of Administrative Justice, the resolution in favor to the interests of the Company (Axtel-Avantel, Alestra), however, it is pending for Telmex to issue an appeal, against such ruling. On the other hand, the claim filed by Telnor (against Axtel-Avantel) related to rates used for the 2011 period, has obtained final favorable ruling. The claim against Alestra for such period is still in the process of being adjudicated.

iv. With regard to the lawsuit filed for the 2012 period, with Alestra as an affected third party, the matter is pending before the TFJA.

v. There is a trust with BBVA Bancomer (as trustee) to guarantee the payment of the fixed interconnection services on the dispute applicable to 2008. This trust agreement was modified to include the amounts in dispute for 2009 and 2010. In April 2013, Alestra obtained favorable final judgment for 2009 and managed to return the amount deposited in the trust for that year, plus interest, for a total of $ 290.6 million pesos, leaving a balance as of December 31, 2016 of $153.0 million. (See Note 7).

Under the Federal Telecommunications and Broadcasting Law ("LFTR"), from August 13, 2014 through December 31, 2017, the Preponderant Economic Agent (AEP) in the telecommunications sector, Telmex is prohibited from charging the rates of termination interconnection that culminate in its network. Telmex challenged that same condition that was resolved by the Second Chamber of the Supreme Court of Justice of the Nation in the appeals in revision 1306/2017 (Telmex) and 1307/2017 (Telnor), granting the protection to these companies.

The effect of these appeals, is that during the period from August 13, 2014 through December 31, 2018, the "zero" rate prevails, resolving the SCJN that the Federal Telecommunications Institute decides a fee for calls of Telmex / Telnor that end up in the network of another concessionaire in 2019.

vi. In January 2017, the Company was notified of an appeal trial filed by Telmex-Telnor (with Alestra, Axtel-Avantel and Alestra Comunicación as affected third parties) against the rates issued in 2016 for the 2017 period by IFT, which are in the process of being adjudicated.

The Company and its legal advisors consider that the rates will prevail based on the resolutions obtained in favor of the Company, for which reason it has recognized the cost based on these rates and there are no provisions associated with this contingency.

vii. In December 2017, the Company was notified of an appeal proceeding brought by Telmex-Telnor (Axtel-Avantel as an affected third party) against the rates issued in 2017 for the 2016 period by the IFT (in compliance with a judgment of protection).

viii. The Company and its advisors consider that the rates will prevail based on the resolutions obtained in favor of the Company, for which reason it has recognized the cost based on those rates and there are no provisions associated with this contingency.

ix. Additionally, in January 2018, the Company (Axtel-Avantel, Alestra Comunicación, and Axtel as an affected third party) was notified of various appeal lawsuits, against the rates resolved in 2017 and 2018, with respect to the 2018 period by the IFT, which are currently in process.

The Company and its advisors consider that the rates will prevail based on the resolutions obtained in favor of the Company, for which reason it has recognized the cost based on these rates and there are no provisions associated with this contingency.

x. During 2016, the IFT initiated a process to review the preponderance measures imposed on América Móvil as Telmex and Telcel holding company. From this review the agreement P / IFT / EXT / 270217/119 was issued through which the IFT modifies and adds the measures imposed to the AEP in 2014 which promote competitive conditions in the telecommunications sector. As of December 31, 2018, the status of the preponderant agent of Telmex, Telnor and Telcel was not modified.

xi. As of the issuance date of the consolidated financial statements, the Company and its advisors consider that the rates of the resolutions of the IFT and Cofetel will prevail based on the resolutions obtained in favor of the Company, for which it has recognized the cost based on these rates and there are no provisions recorded associated with this contingency. Additionally, the process of review of the preponderance measures is in process.

Litigation between Axtel and Solution Ware Integración, S. A. de C. V. ("Solution Ware")

i. Axtel and Solution Ware participated in seven projects with the Government of Nuevo León, the Department of Labor and Social Welfare, the Department of Social Development, the National Population Registry, the National Forest Commission, Seguros Monterrey and the Government of Tamaulipas. To date, Solution Ware has filed a number of ordinary commercial lawsuits against Axtel, for payment of a number of purchase orders for administrative services, as well as interest, damages and prejudice, as well as legal costs and expenses. As of the date of these consolidated financial statements, Solution Ware has demanded, via commercial notary public, payment of $91,776 and $US12,701.

At present, the trial regarding the Opposition to the Merger has been resolved in the second instance, while the contracts related to the Ministry of Labor and Social Security and CONAFOR are in appeal, all in a favorable manner.

As of the date of issuance of the consolidated financial statements, the Company and its advisors consider that there is no real likelihood that these demands will prosper and, therefore, there are no provisions recorded for this contingency.

Lawsuits between Axtel and Comercializadora Vedoh, S. A. de C. V.

i. Axtel contracted with Comercializadora Vedoh for a sponsorship given to Axtel in the NASCAR series. In the 2018 Comercializadora Vedoh filed an ordinary mercantile lawsuit in which it claims to Axtel the payment of $ 1,065 dollars for team sponsorships for 2014 and 2015.

The Company and its advisors consider average possibilities of an economic loss regarding the sponsorship claimed for 2014.

Procedures filed in the Superior Audit Federation ("ASF")

i. In June 2018, S&C System Builders, was notified of a restructuring proceeding processed in the ASF, where it claims the total amount of $ 63,320, the former derived from an audit performed on the Social Development Secretariat (SEDESOL) and the Autonomous University of the State of Mexico.

The Company and its advisors consider average possibilities of obtaining a favorable result in the administrative instance; until there is a resolution that can be challenged before competent jurisdictional authorities and in which the level of risk of any economic impact could be reasonably estimated.

ii. In August 2018, Avantel and Alestra were notified each of a restructuring proceeding processed in the ASF, where the total amount of $ 5,219 is claimed, which is derived from an audit that was performed on the Ministry of Health for the provision of telephone service.

In this sense, the Company and its advisors consider average possibilities of obtaining a favorable result in the administrative instance, until there is a resolution that can't be challenged before competent jurisdictional authorities and in which the level of economic risk of any loss would be estimated again.

While the results of the disputes cannot be predicted, as of December 31, 2018, the Company does not believe that there are pending actions or threatened, lawsuits or legal proceedings against or that affect the Company that, if determined in a manner adverse to it, would significantly damage individually or generally its consolidated financial position and / or results of operation.

Other contingencies

The Company is involved in several lawsuits and claims, derived from the normal course of its operations, which are expected not to have a material effect on its financial position and future results and there were provisions in books associated with these contingencies.

28. Segment information

The information historically used to make strategic decisions is reported to the CEO based on three operating segments. The focus of the three operating segments is described below.

The Massive operating segment offers communication products and services to the consumer market and the small business market. As of 2018, the Massive Segment is presented as a discontinued operation, which resulted with the sale of this business described in Note 20.

The Business operating segment offers communication services and value-added services, such as information, data and Internet technologies, managed through the Company's network and infrastructure for both multinational companies, as well as for international and national businesses.

The Government operating segment offers communication services and value-added services, such as information, data and Internet technologies, administered through the Company's network and infrastructure, for the federal, state and municipal governments.

In addition to the three operating segments focused on the client, the remaining operations of the Company are included in the "Unallocated expenses" category to be included in the consolidated results of the Company. This category includes expenses associated with centralized functions, including procurement, supply chain and the Company's senior management.

These operating segments are managed separately since the products and services offered and the markets in which they are focused are different. The resources are allocated to the operational segments considering the strategies defined by the Company's Management. Transactions between the operating segments are carried out at market values.

The performance of the operating segments is measured based on the Business Unit Contribution (BUC), defined as the operating profit of each segment, including sales, costs per segment and direct segment expenses, as included. in internal financial reports reviewed by the Director General.

The Company defines Adjusted EBITDA as the result of adding to the operating profit (loss), depreciation and amortization, the impairment of non-current assets and the adjusted EBITDA of the massive segment that is presented as a discontinued operation in accordance with IFRS; it is considered a useful measure of the operational performance of the business since it provides a significant analysis of commercial performance by excluding specific items reported separately due to their nature or incidence. Income or interest expenses are not allocated to reportable segments, since this activity is handled globally by Alfa's central treasury

When projects are not directly attributed to a particular operating segment, capital expenditure is allocated to each segment based on the rate of future economic benefits estimated as a result of capital expenditure.

The following is the consolidated financial information of the information segments:

I. Financial information by segments:

		2018	
	Business	**Government**	**Total**
Sales by segment	$10,313,312	$ 2,475,172	$12,788,484
Service cost	(1,913,099)	(1,444,018)	(3,357,117)
Expenses	(863,090)	(164,926)	(1,028,016)
Business unit contribution (BUC)	7,537,123	866,228	8,403,351
	73%	35%	66%
Unallocated expenses			(4,010,584)
EBITDA			4,392,767
EBITDA of discontinued operations			3,847,605
Adjusted EBITDA			8,240,372
Impairment of non-current assets			(74,574)
Depreciation and amortization			(3,622,713)
Depreciation and amortization of discontinued operations			(845,693)
Less the effects of discontinued operations (1)			(3,001,912)
Operating income			695,480
Financial result, net			(1,664,803)
Financial result, net of discontinued operations			-
Loss before tax			$ (969,323)

		2017	
	Business	**Government**	**Total**
Sales by segment	$9,972,670	$ 2,571,431	$12,544,101
Service cost	(2,030,714)	(1,410,680)	(3,441,394)
Expenses	(1,039,486)	(131,261)	(1,170,747)
Business unit contribution (BUC)	6,900,470	1,029,490	7,931,960
	69%	40%	63%
Unallocated expenses			(3,203,105)
Adjusted EBITDA without merger expenses			4,728,855
EBITDA of discontinued operations			1,151,009
Merger expenses			(428,648)
Adjusted EBITDA			5,451,216
Impairment of non-current assets			(11,725)
Depreciation and amortization			(3,353,126)
Depreciation and amortization of discontinued operations			(680,712)
Less the effects of discontinued operations (1)			(470,297)
Operating income			935,356
Financial result, net			(914,997)
Financial results of discontinued operations, net			495
Income before tax			$ 20,854

(1) The items of the discontinued operation are comprised of the operating income of the massive segment plus the gain on sale of the discontinued operation of $1,949,940 presented in Note 20, gross of the corresponding taxes. Additionally, the effects reflected in the results by segment of 2017, consider the operating profit generated by the massive segment in that year.

29. Subsequent events

In preparing the consolidated financial statements, the Company has evaluated events and transactions for recognition or disclosure subsequent to December 31, 2018 and through January 31, 2019 (date of issuance of the consolidated financial statements), and has concluded there are no significant subsequent events that affect the consolidated financial statements.

30. Authorization to issue the financial statements

On January 31, 2019, the issuance of the accompanying consolidated financial statements was authorized by Sergio Rolando Zubirán Shetler, Chief Executive Officer, Adrián de los Santos Escobedo, Chief Financial Officer, and José Salvador Martín Padilla, Corporate Controller.

These consolidated financial statements are subject to the approval of the Company's ordinary shareholders' meeting.

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