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, 2020 and 2019, and Independent Auditors' Report Dated January 31, 2021

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, 2020 and 2019

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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, 2020 and 2019, and the consolidated statements of operations, the consolidated statements of comprehensive income (loss), 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 Axtel, S. A. B. de C. V. and Subsidiaries, as of December 31, 2020 and 2019, as well as their consolidated financial performance and their consolidated 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 *Auditors' 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.

Other Matters

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

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.

Assessment of impairment tests of intangible assets with indefinite useful life and goodwill

As described in Note 3 and 12 to the consolidated financial statements, the Company performs annual impairment tests to the intangible assets with an indefinite useful life and goodwill.

We have identified the evaluation of intangible assets with indefinite useful life and goodwill as a key audit matter, mainly due to the fact that impairment tests involve the application of judgments and significant estimates by the Company's management in determining the assumptions, premises, cash flows, budgeted income, and the selection of discount rates used to estimate the recoverable value of the cash generating units ("CGUs"), along with the changes in the current economic environment caused by the global pandemic of the coronavirus disease (COVID-19) in business, besides the relevance of the balance for the consolidated financial statements of the Company, which is made up of goodwill of $323 million pesos, and assets with a definite and indefinite useful life of $13,108 million pesos. This requires a high level of judgement, an important increase in the level of audit effort and the incorporation of our expert valuation specialists.

We performed the following audit procedures on the following significant assumptions that the Company considered when estimating future projections to evaluate the recovery value of intangible assets with indefinite useful lives and goodwill, among others; projections of income and expenses, expected gross and operating profit margins, discount rate, the industry growth rate, income projections, discount rate, comparison of the expected gross profit margin, projected flows considering the effects originated by the COVID-19. As follows:

- We tested the design and implementation and the operational effectiveness of the controls on the determination of the recovery value and the assumptions used.
- We evaluated with the assistance of our valuation specialists, the reasonableness of the i) methodology for determining the recovery value of intangible assets with indefinite useful lives and goodwill and ii) we challenge the financial projections including the impacts of COVID- 19 in business operations, comparing them with the performance and historical trends of the business and corroborating the explanations of the variations with the administration. Likewise, we evaluated internal processes and management's ability to accurately carry out projections, including proper supervision and analysis by the Board of Directors and confirm the result of the projections, which are in line with the approved budget.
- We analyzed the projection assumptions used in the impairment model, specifically including the projections of cash flow, operating margins, profit margin before financial result, taxes, depreciation and amortization ("EBITDA") and long-term growth. We test the mathematical accuracy, completeness, and accuracy of the impairment model. The valuation specialists performed a sensitivity analysis for all CGUs, independent calculations of the recovery value to assess whether the assumptions used would need to be modified and the probability that such modifications would occur.
- We independently evaluated the applicable discount rates, comparing them with the discount rates used by management.
- We evaluated the factors and variables used to determine the CGUs, among which the analysis of operating flows and debt policies, analysis of the legal structure, production allocation and understanding of the operation of the commercial and sales area were considered.

The results of our procedures were satisfactory, and we agree with the determination of the recovery value of the CGUs and we believe the assumptions used by management are reasonable.

Information other than the Consolidated Financial Statements and Auditors' Report thereon

Management is responsible for the other information presented. The other information includes; i) 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 the Instructions accompanying those provisions (the "Provisions"). The Annual Report is expected to be available to us after the date of this auditors' report; and ii) the other information, which is a measure that is not required by IFRS, and has been incorporated with the purpose of providing an additional explanation to its investors and main readers of its consolidated financial statements to evaluate the performance of each of the operating segments and other indicators on the ability to meet obligations regarding Profit before financial result, taxes, depreciation, amortization and impairment of assets ("EBITDA" or adjusted "EBITDA") of the Company. This information is presented in the Notes 17 and 30.

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. When we read the Annual Report, we will issue the declaration on its reading, required in Article 33, Section I, subsection b), numeral 1.2. of the Provisions. Also, and in relation to our audit of the consolidated financial statements, our responsibility is to read and recalculate the additional information, which in this case is the measure not required by IFRS and when doing so, consider whether the other information contained therein is inconsistent in material form with the consolidated financial statements or with our knowledge obtained during the audit, or which 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. We have nothing to inform in this regard.

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 IFRS, 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.

Auditors' 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 auditors' 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.
- 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 auditors' 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 auditors' 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, 2021

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, 2020 and 2019
Thousands of Mexican pesos

	Note	2020	2019
Assets			
Current assets:			
Cash and cash equivalents	6	$ 3,123,955	$ 857,742
Restricted cash	7	261,827	-
Trade and other accounts receivable, net	8	2,901,248	3,344,674
Inventories	9	78,720	93,982
Financial instruments at fair value	4	-	92,673
Prepayments	3.j	713,711	521,406
Long-lived assets held for sale	2.b	-	1,124,613
Total current assets		7,079,461	6,035,090
Non-current assets:			
Property, plant and equipment, net	10	11,577,650	12,963,991
Right of use asset, net	11	592,871	661,246
Goodwill and intangible assets, net	12	1,260,696	1,052,258
Deferred income taxes	20	2,540,543	2,876,287
Other non-current assets	13	652,624	741,897
Total non-current assets		16,624,384	18,295,679
Total assets		$23,703,845	$24,330,769
Liabilities and Shareholders' Equity			
Current liabilities:			
Debt	17	$ 1,609,301	$ 131,632
Lease liability	18	294,749	451,775
Trade and other accounts payable	14	3,851,293	4,169,016
Provisions	15	18,417	220,190
Deferred income	16	116,054	153,229
Derivative financial instruments	4	154,077	51,814
Total current liabilities		6,043,891	5,177,656
Non-current liabilities:			
Debt	17	13,034,985	13,836,310
Lease liability	18	332,275	414,323
Accounts payable to related parties	28	-	703,348
Employee benefits	19	742,847	695,498
Derivative financial instruments	4	53,120	91,898
Deferred income taxes	20	1,454	759
Total non-current liabilities		14,164,681	15,742,136
Total liabilities		20,208,572	20,919,792
Shareholders' equity:			
Controlling interest:			
Capital stock	21	464,368	464,368
Retained earnings		3,252,002	3,104,427
Other comprehensive loss		(221,097)	(157,818)
Total controlling interest		3,495,273	3,410,977
Non-controlling interest		-	-
Total shareholders' equity		3,495,273	3,410,977
Total liabilities and shareholders' equity		$23,703,845	$24,330,769

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 Operations

For the years ended December 31, 2020 and 2019
Thousands of Mexican pesos

	Note	2020	2019
Revenues	23	$12,355,981	$12,783,633
Cost of sales		(6,171,287)	(6,104,427)
Gross profit		6,184,694	6,679,206
Administration and selling expenses		(5,412,063)	(5,841,918)
Other income (expenses), net	25	1,999,869	(63,453)
Operating income		2,772,500	773,835
Financial income	26	38,878	60,253
Financial expenses	26	(1,378,015)	(1,468,752)
Exchange fluctuation (loss) gain, net	26	(385,284)	290,275
Gain (loss) on changes in fair value of financial instruments		105,809	(8,919)
Financial result, net		(1,618,612)	(1,127,143)
Income (loss) before income taxes		1,153,888	(353,308)
Income taxes (expense) benefit	20	(792,633)	15,291
Income (loss) from continuing operations		361,255	(338,017)
Discontinued operations	22	-	324,078
Net consolidated income (loss)		$ 361,255	$ (13,939)
Income (loss) income attributable to:			
Controlling interest		$ 361,255	$ (13,939)
Non-controlling interest		-	-
		$ 361,255	$ (13,939)
Income (loss) per basic and diluted share from continuing operations		0.018	(0.017)
Profit per basic and diluted share from discontinued operations		-	0.016
Profit (loss) profit per basic and diluted share		0.018	(0.001)
Weighted average common outstanding shares (thousands of shares)		19,987,579	20,183,560

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 (Loss)

For the years ended December 31, 2020 and 2019
Thousands of Mexican pesos

	Note	2020	2019
Net consolidated income (loss)		$361,255	$ (13,939)
Other comprehensive (loss) income for the year:			
Items that will be reclassified to the consolidated statement of operations:			
Effect of currency translation	20	1,152	(2,468)
Fair value of derivative financial instruments, net of taxes		(43,679)	(88,940)
Items that will not be reclassified to the consolidated statement of operations:			
Remeasurements of employee benefits, net of taxes	20	(20,752)	(49,438)
Total other comprehensive loss for the year		(63,279)	(140,846)
Total comprehensive (loss) income of the year		$297,976	$(154,785)
Attributable to:			
Controlling interest		$297,976	$(154,785)
Non-controlling interest		-	-
Comprehensive income (loss) of the year		$297,976	$(154,785)

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, 2020 and 2019
Thousands of Mexican pesos

	Controlling interest						
	Capital stock	**Additional paid- in capital**	**Retained earnings**	**Other comprehensive loss**	**Total controlling interest**	**Non-controlling interest**	**Total shareholders' equity**
Balances as of January 1, 2019	$464,368	$159,551	$ 3,013,954	$ (16,972)	$3,620,901	$ 6	$ 3,620,907
Transactions with stockholders:							
Repurchase of shares	-	(159,551)	103,015	-	(56,536)	-	(56,536)
Other	-	-	1,397	-	1,397	(6)	1,391
Total transactions with stockholders	-	(159,551)	104,412	-	(55,139)	(6)	(55,145)
Net consolidated loss	-	-	(13,939)	-	(13,939)	-	(13,939)
Total other comprehensive loss for the year	-	-	-	(140,846)	(140,846)	-	(140,846)
Comprehensive loss	-	-	(13,939)	(140,846)	(154,785)	-	(154,785)
Balances as of December 31, 2019	$464,368	$ -	$ 3,104,427	$ (157,818)	$3,410,977	$ -	$ 3,410,977
Transactions with stockholders:							
Repurchase of shares	-	-	(213,680)	-	(213,680)	-	(213,680)
Total transactions with stockholders	-	-	(213,680)	-	(213,680)	-	(213,680)
Net consolidated income	-		361,255	-	361,255	-	361,255
Total other comprehensive income for the year	-	-	-	(63,279)	(63,279)	-	(63,279)
Comprehensive income	-	-	361,255	(63,279)	297,976	-	297,976
Balances as of December 31, 2020	$464,368	$ -	$ 3,252,002	$ (221,097)	$3,495,273	$ -	$ 3,495,273

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, 2019 and 2018
Thousands of Mexican pesos

	2020	2019
Cash flows from operating activities		
Income (loss) before income taxes	$1,153,888	$ (353,308)
Depreciation and amortization	3,384,219	3,578,541
Exchange fluctuation loss (gain), net	385,284	(290,275)
Allowance for doubtful accounts	48,891	8,874
(Gain) loss from sale of property, plant and equipment	(2,022,963)	5,046
Interest income	(38,878)	(60,253)
Interest expense	1,378,015	1,468,752
Current PTU	6,891	12,524
Impairment of goodwill	96,754	-
Others	72,539	113,255
Change in unrealized fair value and settlement of financial instruments	(105,809)	8,919
Changes in working capital:		
Trade and other accounts receivable, net	420,656	120,012
Inventories	85,859	131,289
Trade accounts payable, related parties and other accounts payable	(528,915)	(1,340,992)
Employee benefits	17,703	32,835
Paid PTU	(11,847)	(9,178)
Deferred income	(37,175)	(383,223)
Operating cash flows from discontinued operations	-	(29,633)
Subtotal	4,305,112	3,013,185
Income taxes paid	(97,274)	(56,481)
Net cash flows generated by operating activities	4,207,838	2,956,704
Cash flows from investing activities		
Acquisitions of property, plant and equipment	(1,591,980)	(1,691,354)
Disposal of property, plant and equipment	3,147,703	-
Acquisition of intangible assets	(553,826)	(70,676)
Interest received	38,877	60,254
Restricted cash and other assets	(247,104)	93,908
Investment in shares of Altán	(64,568)	(69,959)
Investing cash flows from discontinued operations	-	1,150,000
Net cash flows generated by (used in) investing activities	729,102	(527,827)
Cash flows from financing activities		
Proceeds of current and non-current debt	1,485,012	-
Payments of current and non-current debt	(1,411,749)	(550,000)
Lease payments	(545,855)	(638,067)
Payment of account payable to holding company	(713,972)	(1,237,640)
Repurchase of shares	(213,680)	(56,536)
Interest paid and other financial expenses	(1,200,297)	(1,338,736)
Net cash flows used in financing activities	(2,600,541)	(3,820,979)
Net increase (decrease) of cash and cash equivalents	2,336,399	(1,392,102)
Effect of changes in exchange rates	(70,186)	689
Cash and cash equivalents at the beginning of the year	857,742	2,249,155
Cash and cash equivalents at the end of the year	$3,123,955	$ 857,742

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, 2020 and 2019
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 corporate offices are located at Avenida Munich No. 175 Colonia Cuauhtémoc, 66450 San Nicolás de los Garza, 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 an Information and Communication Technology company that serves the enterprise, government and wholesale markets, through its business units Alestra (services) and Axtel Networks (infrastructure). The portfolio of the services unit for the business and government segments includes advanced solutions for managed networks, collaboration and information technology (IT) such as systems integration, cloud services, cybersecurity, among others. On the other hand, the connectivity solutions of the infrastructure unit for wholesale clients or operators (including the services unit) include last-mile access, IP transit, spectrum, fiber to the tower and fiber to the data center, among others. Concessions are required to provide these services and conducting the Company's business activities. See Note 12.

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.

When reference is made to the controlling entity Axtel, S. A. B. of C. V. as an individual legal entity, it will be referred to as “Axtel SAB”.

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

<u>2020</u>

a. Impacts due to COVID-19

As a result of the outbreak of the infectious disease virus SARS-COV-2 (“COVID-19”) and its recent global expansion to a large number of countries, the World Health Organization classified the viral outbreak as a pandemic on March 11, 2020. Therefore, actions were taken under three main priorities, the safety and well-being of all employees, the needs and support for customers, as well as the continuity of the business and its operations.

The Company's operations have not been interrupted as a result of the COVID-19 pandemic and it has led to increased demand for products that allow customers to sustain remote and virtual interactions, such as connectivity, network access, cybersecurity perimeters and cloud solutions, among others.

The impacts of the COVID-19 pandemic were mainly reflected in the income of the business segment, where there was an increase in income of $23 million pesos related to the growth of bandwidth services. Additionally, the Company had a decrease of $40 million pesos and made investments on working capital through the granting of a longer payment term to clients, whose book value is $63 million pesos.

As of the date of approval of the consolidated financial statements, the Company's management continues to implement measures to face the economic conditions of the market, as part of its risk management strategy.

b. Closing of agreement with Equinix

On January 8, 2020, the Company informed the definitive closing of the strategic agreement with Equinix to strengthen its offering of IT and cloud solutions. As announced on October 3, 2019, Equinix acquired the operations and assets of three data centers from Axtel; two located in Querétaro and one in the metropolitan area of Monterrey. The valuation of this transaction was US $ 175 million, which was settled in cash, except for US$13 million related to an escrow, which were released on January 8, 2021. (see Note 7 and 31).

Excluding operating expenses and the balance in custody, resources of approximately US $154 million will be used to strengthen the financial structure of the Company. The Company did not have an impact on cash flow due to tax consequences, since it applied tax losses that were pending amortization for $2,644,367.

c. Debt prepayment.

On February 14, 2020, the Company prepaid the total of the syndicated loan maintained with HSBC as the leader of the participating financial institutions in the amount of $1,320,000 (US$67 million). Derived from this prepayment, the Company immediately recognized in the consolidated statement of operations, the costs of obtaining debt that were pending amortization at that date for $8,130. Additionally, during 2020, the Company made payments to Alfa, S. A. B. de C. V. for $ 703,348 and $10,624 for principal and interest, respectively.

<u>2019</u>

d. Sale of the rest of the massive segment

On May 1, 2019, the Company divested its fiber optic business from the massive segment located in the cities of León, Puebla, Toluca, Guadalajara and Querétaro to Megacable Holdings, S. A. B. de C. V. and subsidiaries ("Megacable") through the sales figure of residential customers and micro-businesses, fiber network and other assets related to the operation of the massive segment in these cities in exchange for a consideration of $1,150 million pesos, thus concluding the sale of the fiber optic business of the massive segment, process that began with the sale to Televisa in December 2018. The Company recognized a gain of $519 million pesos, which is presented under discontinued operations in the consolidated statement of operations. The Company did not have an impact on cash flows due to tax consequences, as it applied tax loss carryforwards of $730,238.

Lastly, as explained in Note 22, the operations subject to the transaction are presented as discontinued operations to reflect results from January 1 to May 1, 2019, as required by IFRS. In addition, this note identifies the asset and liability balances that were disposed as of the transaction date, as well as the cash flows generated by the transaction disposed to the selling date in 2019.

e. Sale of data center in Apodaca and Querétaro

On October 3, 2019, Axtel entered into an agreement with Equinix to strengthen its co-location, interconnection and cloud solutions by entering into two agreements subject to compliance with closing conditions. Equinix acquired a new subsidiary entity of Axtel, which will house the operations and assets of three data centers that belonged to Axtel, two of these data centers are located in Querétaro and one in the metropolitan area of Monterrey. The amount of the transaction is US$175 million, which were settled in cash, except US$13 that remained as receivable in the short term. The rest of the data centers owned by Axtel, located in Monterrey, Nuevo León; Guadalajara, Jalisco and Tultitlán, Mexico City, were not part of this transaction.

Data centers are presented as available for sale as of December 31, 2019 and were disposed on January 8, 2020.

f. ***Debt prepayment***

On May 7, 2019, the Company prepaid a portion of the syndicated loan held with HSBC as the leader of the participating financial institutions in the amount of $250,000, and the disposed portion of the Committed Line with Export Development Canada of $300,000. It also made payments to Alfa SAB of $917,000 and $320,000 for principal and interest, respectively. As a result of this prepayment, the Company immediately recognized in the consolidated statement of operations, the outstanding debt costs as of that date of $8,250.

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.

In the current year, the Company has applied a number of new and amended IFRS and interpretations issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2020. The conclusions related to their adoption are described as follows:

Amendments to IFRS 16, Rent concessions related to Covid-19

The amendments introduce a practical expedient that provides lessees the option not to assess whether a rent concession that meets certain conditions is a lease modification. The practical expedient is applicable to rent concessions occurring as a direct consequence of the Covid-19 pandemic and only if all of the following conditions are met:

a. The change in the lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

b. Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and

c. There is no substantive change to other terms and conditions of the lease.

The Company evaluated these modifications to IFRS 16, and determined that the implementation of this modification did not have a significant effect on the results, because the benefits from rental concessions derived from the COVID-19 pandemic were not material.

Additionally, the Company adopted the following amendments, which did not have any effects on the consolidated financial statements in the current year:

- Amendments to IAS 1 and IAS 8, Definition of Materiality
- Amendments to IFRS 3, Definition of a Business

- Amendments to IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform

ii. New and revised IFRS in issue but not yet effective

At the date of authorization of these consolidated financial statements, the Company has not applied the following new and revised IFRS that have been issued but are not yet effective. The Company does not expect that the adoption of the following standards will have a material impact on the consolidated financial statements in future periods, considering they have no significant applicability:

- Amendments to IAS 1, Classification of Liabilities as Current or Non-current (1)
- Amendments to IAS 16, Property, Plant and Equipment Proceeds Before Intended Use (1)
- Amendments to IFRS 9, Financial Instruments (1)
- IFRS 17, Insurance Contracts (2)

(1) Effective for annual reporting periods beginning on January 1, 2022

(2) Effective for annual reporting periods beginning on January 1, 2023

Additionally, the Company is continuously monitoring the progress of the reference interest rate reform project that modifies the regulations as mentioned below:

Phase 2 of the Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

Interbank offered rates (IBORs) are interest reference rates, such as LIBOR, EURIBOR and TIBOR, that represent the cost of obtaining unsecured funding, have been questioned for their long-term viability as benchmarks. The Interest Rate Benchmark Reform on its phase 2 refers to the modification of financial assets, financial liabilities and lease liabilities, hedge accounting requirements and disclosure of financial instruments. These amendments are effective for annual reporting periods beginning on or after January 1, 2021 with retrospective application, without the need to restate the comparative periods.

With respect to the modification of financial assets, financial liabilities and lease liabilities, the IASB introduced a practical expedient, which implies updating the effective interest rate.

On the other hand, regarding the hedge accounting, the hedging relationships and related documentations, must reflect modifications to the hedged item, hedging instrument and hedged risk. Hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements.

Finally, regarding the disclosures, the entities should disclose how it is managing the transition from IBORs to alternative benchmark rates and the risks may arise from the transition, quantitative information about non-derivative financial assets and liabilities, as well as derivatives that continue to reference interest rate benchmarks subject to the reform and changes arisen on the risk management strategy.

The Company is in the process of evaluating the impacts derived of the application of these amendments.

c. Consolidation

iii. 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 operations.

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, 2020 and 2019, the main subsidiary companies of Axtel were as follows:

		Shareholding interest (%)		
	Country	**2020**	**2019**	**Functional currency**
Axtel, S. A. B. de C. V. (Holding company) [3][4]	Mexico			Mexican peso
Servicios Axtel, S. A. de C. V. [1]	Mexico	100	100	Mexican peso
Alestra Innovacion Digital, S. de R. L. de C. V. [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
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
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			Mexican peso
Alestra Procesamiento de Pagos, S. A. de C. V. [3]	Mexico	100	100	Mexican Peso
La Nave del Recuerdo, S. A. de C. V. [5]	Mexico	100	100	Mexican Peso
Contacto IP FTTH de México, S. A. de C. V. [5]	Mexico	100	100	Mexican Peso
Alestra Servicios Móviles, S. A. de C. V. [3]	Mexico	100	100	Mexican Peso
Fomento de Educación Tecnológica, S.C. [6]	Mexico	100	-	Mexican Peso
Axtel Networks, S. A. de C. V. [5]	Mexico	100	-	Mexican Peso
Servicios Axtel Networks, S. A. de C. V. [5]	Mexico	100	-	Mexican Peso
AXE Redes e Infraestructura S. A. de C. V. [5]	Mexico	100	-	Mexican Peso

(1) Provider of administrative services.

(2) Leasing of telecommunications and infrastructure equipment.

(3) Provider of telecommunication services.

(4) At the General Extraordinary Stockholders' Meeting held on February 26, 2019, the stockholders agreed to merge Avantel, S. de R. L. de C. V. and Servicios Alestra, S. A. de C. V. (as absorbed companies) with Axtel, S. A. B. de C. V. (as absorbing company); this merger took effect on June 22, 2019 and has no impact on the Company's operations at the consolidated level.

(5) Legally created companies with no operations.

(6) Training and development services

As of December 31, 2020 and 2019, there are no significant restrictions for the investment in shares of the subsidiary companies mentioned above.

iv. 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.

v. 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 operations. 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 (loss) 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 (loss) income being reclassified to income for the year.

vi. 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 (loss) 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 operations and its share in the other comprehensive (loss) income of associates is recognized as other comprehensive (loss) 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 operations.

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 operations.

As of December 31, 2020 and 2019, the Company has no investments in 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 operations, except for those which are deferred in comprehensive (loss) 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 operations 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 operations, 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 are recognized in the consolidated statement of operations 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**	**2020**	**2019**	**2020**	**2019**
United States	U.S. dollar	19.95	18.85	21.50	19.27

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

The Company 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 (loss) 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

i. 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.

ii. Financial assets at fair value through other comprehensive (loss) *income*

Financial assets at fair value through other comprehensive (loss) 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, 2020 and 2019, the Company does not have financial assets to be measured at fair value through other comprehensive (loss) income.

iii. 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 (loss) 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 (loss) 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, 2020 and 2019, the Company has not made any of the irrevocable designations described above.

Impairment of financial assets

The Company uses 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 (loss) 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 has defined as the breach threshold, the period from which the recovery of the account receivable subject to analysis is marginal; in this case, for the services segment it considers 120 days for the business clients and 150 days for the government clients, and for the infrastructure segment it considers 120 days for business clients, 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 operations 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 operations. 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 operations in the same line item as the hedged position. As of December 31, 2020 and 2019, 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 (loss) income, within shareholders' equity and is reclassified to profit or loss when the hedged position is affected; the ineffective portion is immediately recorded in profit or loss.

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 (loss) 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 (loss) 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 (loss) 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 inventories corresponding to materials and consumables, includes equipment installation costs, other direct costs and indirect expenses. Excludes borrowing costs. The net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

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 operations 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 operations 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 operations 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 operations.

l. Leases

The Company as lessee

The Company evaluates whether a contract is or contains a lease agreement at inception of a contract. A lease is defined as an agreement or part of an agreement that conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. The Company recognizes a right-of-use asset and the corresponding lease liability, for all lease agreements in which it acts as lessee, except in the following cases: short-term leases (defined as leases with a lease term of less than 12 months); leases of low-value assets (defined as leases of assets with an individual market value of less than US$5,000 (five thousand dollars)); and, lease agreements whose payments are variable (without any contractually defined fixed payment). For these agreements, which exempt the recognition of a right-of-use asset and a lease liability, the Company recognizes the rent payments as an operating expense in a straight-line method over the lease period.

The right-of-use asset comprises all lease payments discounted at present value; the direct costs to obtain a lease; the advance lease payments; and the obligations of dismantling or removal of assets. The Company depreciates the right-of-use asset over the shorter of the lease term or the useful life of the underlying asset; therefore, when the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Depreciation begins on the lease commencement date.

The lease liability is initially measured at the present value of the future minimum lease payments that have not been paid at that date, using a discount rate that reflects the cost of obtaining funds for an amount similar to the value of the lease payments, for the acquisition of the underlying asset, in the same currency and for a similar period to the corresponding contract (incremental borrowing rate). When lease payments contain non-lease components (services), the Company has chosen, for some class of assets, not to separate them and measure all payments as a single lease component; however, for the rest of the class of assets, the Company measures the lease liability only considering lease payments, while all of the services implicit in the payments, are recognized directly in the consolidated statement of operations as operating expenses.

To determine the lease term, the Company considers the non-cancellable period, including the probability to exercise any right to extend and/or terminate the lease term.

Subsequently, the lease liability is measured increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and reducing the carrying amount to reflect the lease payments made.

When there is a modification in future lease payments resulting from changes in an index or a rate used to determine those payments, the Company remeasures the lease liability when the adjustment to the lease payments takes effect, without reassessing the discount rate. However, if the modifications are related to the lease term or exercising a purchase option, the Company reassesses the discount rate during the liability's remeasurement. Any increase or decrease in the value of the lease liability subsequent to this remeasurement is recognized as an adjustment to the right-of-use asset to the same extent.

Finally, the lease liability is derecognized when the Company fulfills all lease payments. When the Company determines that it is probable that it will exercise an early termination of the contract that leads to a cash disbursement, such disbursement is accounted as part of the liability's remeasurement mentioned in the previous paragraph; however, in cases in which the early termination does not involve a cash disbursement, the Company cancels the lease liability and the corresponding right-of-use asset, recognizing the difference immediately in the consolidated statement of operations.

The Company as lessor

Leases, determined based on the definition of IFRS 16, for which the Company acts as lessor, are classified as financial or operating. As long as the terms of the lease transfer substantially all the risks and benefits of the property to the lessee, the contract is classified as a finance lease. The other leases are classified as operating leases.

Income from operating leases is recognized in a straight line during the corresponding lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the book value of the leased asset and are recognized straight-line over the term of the lease. The amounts for financial leases are recognized as accounts receivable for the amount of the Company's net investment in the leases.

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 to 7
Concessions	20 to 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, 2020 and 2019, 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 operations represents the sum of current and deferred income taxes.

The amount of income taxes included in the consolidated statement of operations 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.

During fiscal year 2020, the Company recognized $ 374,238 as an account payable related to income tax adjustments from prior fiscal years derived from a review by the authorities to prior fiscal years.

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 (loss) 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 operations.

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.

As of December 31, 2020 and 2019, the Company recognized a termination expense in the consolidated statement of operations for $171,893 and $ 92,989, respectively.

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 operations.

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 operations, 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 operations.

t. Treasury shares

The Company's stockholders periodically authorize a maximum amount for the acquisition of the Company's own shares. Upon the occurrence of a repurchase of its own shares, they become treasury shares and the amount is presented as a reduction to stockholders' equity at the purchase price. These amounts are stated at their historical value.

u. 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.

v. Comprehensive income (loss)

Comprehensive income (loss) is comprised of net income (loss) 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.

w. 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.

x. 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 operations, 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.

y. 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.

z. 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.

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 is 5.78 times and 6.13 times as of December 31, 2020 and 2019, 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, 2020	As of December 31, 2019
Cash and cash equivalents	$ 3,123,955	$ 857,742
Restricted cash	261,827	-
Financial assets at amortized cost:		
Trade and other accounts receivable	2,844,473	3,310,000
Financial assets at fair value with changes through profit or loss (1)		
Financial instruments (zero strike call)	-	92,673
Total financial assets	$ 6,230,255	$ 4,260,415
Financial liabilities at amortized cost:		
Current debt	$ 1,609,301	$ 131,632
Lease liability	627,024	866,098
Trade payables, related parties and sundry creditors	2,376,195	2,905,871
Non-current debt	13,034,985	13,836,310
Other non-current accounts payable	-	703,348
Financial liabilities measured at fair value with changes in results:		
Derivative financial instruments (1)	207,197	143,712
Total financial liabilities	$ 17,854,702	$18,586,971

(1) 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, 2020 and 2019.

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

	As of December 31, 2020		As of December 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities:				
Debt (*)	$14,655,875	$14,999,100	$14,006,129	$14,737,276
Accounts payable to related parties	-	-	703,348	631,017

(*) 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, 2020 and 2019 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, 2020:

	USD (translated to thousands of MXP)
Financial assets	$ 3,075,425
Financial liabilities	(12,217,941)
Foreign exchange monetary position	$(9,142,516)

During 2020 and 2019, 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 $914,252 on the consolidated statement of operations and consequently on the shareholders' equity.

Financial instruments and derivative financial instruments

Financial instruments

As of December 31, 2019, the Company had Over the Counter (OTC) transaction agreements with Bank of America Merrill Lynch (BAML), 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, 2020 and 2019, 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 2020	Fair value 2019
Bank of America Merrill Lynch (1)	30,384,700	2010 and 2009	CPO's Axtel	$ -	$92,673
				$ -	$92,673

(1) During July and August of 2020, the financial instrument maintained with Bank of America Merrill Lynch was fully exercised. For the year ended December 31, 2020 and 2019, the changes in fair value of the Zero Strike Calls gave rise to a realized gain of $105,809 and an unrealized gain $8,919, respectively. These were recognized in the consolidated statement of operations within financial income and expenses.

Derivative financial instruments

As of December 31, 2020 and 2019, the Company maintains the following derivative financial instrument:

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	2020	2019
Currency	MXN	MXN
Notional	$3,380,000	$3,380,000
Coupon	TIIE28	TIIE28
Coupon	8.355%	8.355%
Maturity	December 15, 2022	December 15, 2022
Swap book value	$(207,198)	$(137,177)
Change in the fair value of the swap to measure ineffectiveness	$(205,774)	$(135,329)
Reclassification from OCI to income	$5,784	$653
Balance recognized in OCI net of reclassifications	$201,414	$136,524
Ineffectiveness recognized in income	-	-
Change in the fair value of the hedged item to measure ineffectiveness	$210,604	$147,478
Change in the fair value DFI vs 2019	$(70,021)	$(160,768)

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, 2020 and 2019, 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 96.7% and 100%, in 2020 and 2019, respectively, 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 73% and 93%, in 2020 and 2019, respectively. 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.

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, in December 2019, it 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	**2019**
Currency	USD
Total notional	US$15,900
Average strike	19.6560 MXN/USD
Maturity	May 12, 2020
Forward’s book value	$(6,535)
Change in the fair value of the forwards to measure ineffectiveness	$(6,535)
Reclassification from OCI to income	$4,043
Balance recognized in OCI net of reclassifications	$2,492
Ineffectiveness recognized in income	-
Change in the fair value of the hedged item to measure ineffectiveness	$6,535
Change in the fair value FDI vs 2018	$32,723

In measuring 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 offset within the range of effectiveness established by management. The prospective effectiveness test for the USD / MXN exchange rate ratio resulted in 100% for 2019, 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 hedging ratio for the USD / MXN exchange rate is 100% for 2019. If necessary, a rebalancing will be performed 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, 2019, no ineffectiveness was recognized in gain or loss.

As of December 31, 2020, a gain of $ 63,990 was recognized in the consolidated statement of operations for the settlement of said hedging instrument.

(ii). 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, 2020, 9% of Axtel's total debt generates variable interest rates while the remaining 91% 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, 2020, 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 $45,413 and $(45,413), 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, 2020, 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 5% and 4% of the Company’s total accounts receivable as of December 31, 2020 and 2019, respectively. Additionally, revenues associated to Company A for the years ended December 31, 2020 and 2019 was 1% and 2%, respectively.

Company B accounts for 3% and 2% of the Company’s total accounts receivable as of December 31, 2020 and 2019, respectively. Additionally, revenues related to Company B for the years ended December 31, 2020 and 2019 was 1% and 1%, respectively.

As of December 31, 2020 and 2019, the allowance for impairment totaled $373,335 and $1,208,739 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, 2020			
Current debt	$1,609,301	$ -	$ -
Trade payable, related parties and creditors	2,376,195	-	-
Derivative financial instruments	154,077	53,120	-
Non-current debt	-	10,858,023	2,294,360
Lease liability	294,749	325,276	6,999
Non-accrued interest payable	867,657	2,700,810	309,430
December 31, 2019			
Current debt	$ 131,632	$ -	$ -
Trade payable, related parties and creditors	2,905,871	-	-
Derivative financial instruments	51,814	91,898	-
Non-current debt		11,355,748	2,630,602
Lease liability	451,775	401,335	12,988
Non-accrued interest payable	1,094,108	3,953,055	706,960

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 17.

As of December 31, 2020, the Company has short-term uncommitted, unused lines of credit for approximately $590,000 (US$30 million). Additionally, as of December 31, 2020, Axtel has committed credit lines for US$ 50 million in the short term, of which $987,589 (US$ 49.5 million) has been used and $9,846 (US$0.5 million) is available.

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, 2020 and 2019:

	As of December 31, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets (liabilities):				
Interest rate swap	$ -	$(207,197)	$ -	$(207,197)
	$ -	$(207,197)	$ -	$(207,197)

	As of December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets (liabilities):				
Zero strike calls	$ 92,673	$ -	$ -	$ 92,673
Forwards	-	(6,535)	-	(6,535)
Interest rate swap	-	(137,177)	-	(137,177)
	$ 92,673	$(143,712)	$ -	$ (51,039)

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. Impairment and useful lives of long-lived 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.

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.

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 20). 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.

f. ***Estimation of the discount rate to calculate the present value of future minimum lease payments***

The Company estimates the discount rate to use in the determination of the lease liability, based on the incremental borrowing rate ("IBR").

The Company uses a three-tier model, with which it determines the three elements that comprises the discount rate: (i) reference rate, (ii) credit risk component and (iii) adjustment for characteristics of the underlying asset. In this model, management also considers its policies and practices to obtain financing, distinguishing between the one obtained at the corporate level (that is, the holding company), or at the level of each subsidiary. Finally, for real estate leases, or in which there is significant and observable evidence of their residual value, the Company estimates and evaluates an adjustment for characteristics of the underlying asset, based on the possibility that said asset is granted as collateral or guarantee against the risk of default.

g. ***Estimation of the lease term***

The Company defines the lease term as the period for which there is a contractual payment commitment, considering the non-cancelable period of the contract, as well as the renewal and early termination options that are probable to be exercised. The Company participates in lease contracts that do not have a defined non-cancellable term, a defined renewal period (in case it contains a renewal clause), or automatic annual renewals, so, to measure the lease liability, it estimates the contracts term considering their contractual rights and limitations, their business plan, as well as management's intentions for the use of the underlying asset.

Additionally, the Company considers the clauses of early termination of its contracts and the probability of exercising them, as part of its estimate of the lease term.

6. Cash and cash equivalents

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

	2020	**2019**
Cash on hand and in banks	$1,747,864	$139,197
Short-term investments	1,376,091	718,545
Total cash and cash equivalents	$3,123,955	$857,742

7. Restricted cash

As of December 31, 2020 and 2019, the balance of restricted cash was $261,827 (US$13 million) and $0, respectively.

The balance as of December 31, 2020 is related to an escrow originated from the sale transaction of the three data centers located in Queretaro and Monterrey to Equinix. This balance was released on January 8, 2021. See Note 31.

As of December 31, 2019, the restricted cash balance is $0 because on February 28, 2019, a ruling was handed down in favor of Alestra related to the disputes on the resale interconnection rates established between Alestra and Telmex and Telefonos del Norte ("Telnor", a subsidiary of Telmex), allowing the withdrawal of the outstanding balance of the amounts contributed to the trust and its corresponding returns.

8. Trade and other accounts receivable, net

Trade and other accounts receivable are comprised as follows:

	2020	**2019**
Current:		
Trade accounts receivable	$2,168,349	$3,634,751
Allowance for impairment of accounts receivable [1]	(373,335)	(1,208,739)
Trade accounts receivable, net	1,795,014	2,426,012
Recoverable taxes	56,775	34,674
Notes and other accounts receivable	1,041,257	860,528
Related parties	8,202	23,460
	$2,901,248	$3,344,674

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

	2020	**2019**
Initial balance	$1,208,739	$2,172,343
Write-off of doubtful accounts[2]	48,891	45,631
Allowance for doubtful accounts for the year	(884,295)	(1,009,235)
Ending balance	$ 373,335	$1,208,739

(2) The net variance in the allowance for doubtful accounts in 2020 and 2019 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.

The following describes the probability ranges of default and recovery rates allocated to the main customer segments with which the company has balances receivable in its different businesses:

As of December 31, 2020

Clients or group of clients	**Probability range of default**	**Severity of loss**
Carriers	10.0% - 100.0%	87.50%
Business	7.5% - 100.0%	87.50%
Government	10.0% - 100.0%	70.00%

As of December 31, 2019

Clients or group of clients	**Probability range of default**	**Severity of loss**
Carriers	10.0% - 100.0%	87.50%
Business	7.5% - 100.0%	87.50%
Government	10.0% - 100.0%	70.00%

9. Inventories

As of December 31, 2020 and 2019, inventories of $78,720 and $93,982, respectively, were composed by materials and consumables.

The cost of inventories recognized as an expense and included in the cost of sales amounted to $142,418 and $141,649 for 2020 and 2019, respectively. As of December 31, 2020 and 2019, 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, 2019									
Reclassifications to the right of use	$ -	$ (217,449)	$ (721)	$ (51,092)	$ (6,862)	$ -	$ -	$ -	$ (276,124)
Net opening balance	1,056,183	12,974,137	93,476	312,307	20,994	96,684	481,905	1,069,838	16,105,524
Translation effect	-	(944)	-	-	-	-	-	-	(944)
Additions	-	9,431	109	6,413	175	-	-	1,443,097	1,459,225
Transfers	6,230	1,589,353	2,162	36,278	677	9,900	-	(1,644,600)	-
Transfers held for sale	(761,495)	(337,571)	(4,786)	(205)	-	-	(20,556)	-	(1,124,613)
Disposals	-	(116,063)	(33)	(4,882)	(963)	(156)	-	(75,008)	(197,105)
Depreciation charge recognized in the year	(28,468)	(2,790,819)	(17,623)	(130,305)	(9,047)	(25,710)	-	-	(3,001,972)
Ending balance	$ 272,450	$ 11,110,075	$ 72,584	$ 168,514	$ 4,974	$ 80,718	$461,349	$ 793,327	$12,963,991
As of December 31, 2019									
Cost	$ 626,382	$ 53,703,112	$503,650	$4,162,306	$149,149	$ 640,387	$461,349	$ 793,327	$61,039,662
Accumulated depreciation	(353,932)	(42,593,037)	(431,066)	(3,993,792)	(144,175)	(559,669)	-	-	(48,075,671)
Net carrying amount as of December 31, 2019	$ 272,450	$ 11,110,075	$ 72,584	$ 168,514	$ 4,974	$ 80,718	$461,349	$ 793,327	$12,963,991
For the year ended December 31, 2020									
Net opening balance	$ 272,450	$ 11,110,075	$ 72,584	$ 168,514	$ 4,974	$ 80,718	$461,349	$ 793,327	$12,963,991
Translation effect	-	1,408	-	-	-	-	-	-	1,408
Additions	-	14,943	32	16,492	-	-	-	1,473,919	1,505,386
Transfers	(26,703)	1,315,594	7,302	10,019	-	24,033	-	(1,332,292)	(2,047)
Disposals	-	(117,272)	(151)	(183)	(70)	-	-	(33,760)	(151,436)
Depreciation charges recognized in the year	(12,853)	(2,599,835)	(14,753)	(73,169)	(4,092)	(34,950)	-	-	(2,739,652)
Ending balance	$ 232,894	$ 9,724,913	$ 65,014	$ 121,673	$ 812	$ 69,801	$461,349	$ 901,194	$11,577,650
As of December 31, 2020									
Cost	$ 597,111	$ 44,180,820	$415,120	$3,535,059	$112,678	$ 587,269	$461,349	$ 901,194	$50,790,600
Accumulated depreciation	(364,217)	(34,455,907)	(350,106)	(3,413,386)	(111,866)	(517,468)	-	-	(39,212,950)
Net carrying amount as of December 31, 2020	$ 232,894	$ 9,724,913	$ 65,014	$ 121,673	$ 812	$ 69,801	$461,349	$ 901,194	$11,577,650

Of the total depreciation expense, $2,667,981 and $2,879,263 were charged to cost of sales, $71,670 and $122,709 to selling and administrative expenses, and $0 and $162,780 in discontinued operations for 2020 and 2019, 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, 2020 and 2019, the Company capitalized $12,776 and $15,434, respectively, of borrowing costs related to qualifying assets of $583,175 and $410,323, respectively. These amounts were capitalized based on an interest rate of 7.59% and 7.63%, respectively.

11. Right of use asset

The Company leases a different set of fixed assets including, buildings, machinery and equipment, vehicles, and computer equipment. The average term of the lease contracts is from 3 to 6 years.

i. The right of use recognized in the consolidated statement of financial position as of December 31, 2020 and 2019, is integrated as follows:

	Land & buildings	Telecommunications equipment and networks	Furniture and office equipment	Computer equipment	Vehicles	Total
Net book value						
Adoption effect	$ 680,405	$ -	$ -	$ -	$ -	$ 680,405
Property, plant and equipment reclassification	-	217,449	721	51,092	6,862	276,124
Balances as of January 1, 2019	$ 680,405	$ 217,449	$ 721	$ 51,092	$ 6,862	$ 956,529
Balances as of December 31, 2019	$ 440,826	$ 187,192	$ 642	$ 28,324	$ 4,263	$ 661,246
Balances as of December 31, 2020	$ 366,510	$ 154,500	$ 549	$ 28,668	$ 42,644	$ 592,871
Accumulated depreciation 2019	$(238,408)	$ (30,256)	$ (79)	$ (22,768)	$ (2,599)	$ (294,110)
Accumulated depreciation 2020	$(218,706)	$ 32,355)	$ (79)	$ (27,248)	$ (9,586)	$ (287,974)

Additions to the net book value of the right of use asset as of December 31, 2020 and 2019 amounted to $239,952 and $7,103, respectively.

ii. Expenses recognized in the consolidated statement of operations for the year ended December 31, 2020 and 2019.

	2020	2019
Rent expenses from low-value asset leases	$ -	$ -
Rent expenses from short-term leases	$ 893,842	$892,752

The Company has not signed lease contracts, which at the date of the consolidated financial statements have not started.

During the year, the Company did not realize significant extensions to the term of its lease contracts.

12. Goodwill and intangible assets

	Definite life				Indefinite life			
	Concessions	Trademarks	Relationships with customers	Non-compete agreements	Software and licenses	Other	Goodwill	Total
As of January 1, 2019	$ 7,208	$ 33,724	$ 130,176	$ 60,632	$ 447,618	$ 306,493	$ 419,536	$1,405,387
Additions	23,733	-	-	-	70,246	1,026	-	95,005
Disposals	-	-	-	-	(2,895)	-	-	(2,895)
Transfers	-	-	-	-	-	-	-	-
Amortization charges recognized in the year	(2,200)	(22,392)	(18,765)	(50,271)	(206,466)	(145,146)	-	(445,239)
Ending balance as of December 31, 2019	$ 28,741	$ 11,332	$ 111,411	$ 10,361	$ 308,503	$ 162,373	$ 419,536	$1,052,258
Cost	$ 693,405	$ 258,904	$ 516,600	$ 809,793	$1,811,138	$ 710,411	$ 419,536	$5,219,787
Accumulated amortization	(664,664)	(247,572)	(405,189)	(799,432)	(1,502,634)	(548,038)	-	(4,167,529)
Ending balance as of December 31, 2019	$ 28,741	$ 11,332	$ 111,411	$ 10,361	$ 308,504	$ 162,373	$ 419,536	$1,052,258
As of January 1, 2020	$ 28,741	$ 11,332	$ 111,411	$ 10,361	$ 308,504	$ 162,373	$ 419,536	$1,052,258
Additions	422,848	-	-	-	178,750	69,710	-	671,308
Disposals	(2,341)	-	-	-	(9,229)	12	-	(11,558)
Transfers	-	-	-	-	-	2,035	-	2,035
Impairment recognized in the year	-	-	-	-	-	-	(96,754)	(96,754)
Amortization charges recognized in the year	(11,757)	(7,999)	(16,398)	(7,314)	(207,075)	(106,050)	-	(356,593)
Ending balance as of December 31, 2020	$ 437,491	$ 3,333	$ 95,013	$ 3,047	$ 270,950	$128,080	$ 322,782	$1,260,696
Cost	$ 468,838	$ 79,573	$ 190,739	$ 36,569	$ 1,602,164	$ 586,695	$ 322,782	$3,287,360
Accumulated amortization	(31,347)	(76,240)	(95,726)	(33,522)	(1,331,214)	(458,615)	-	(2,026,664)
Ending balance as of December 31, 2020	$ 437,491	$ 3,333	$ 95,013	$ 3,047	$ 270,950	$ 128,080	$ 322,782	$1,260,696

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, $11,757 and $2,131 were charged to cost of sales and $344,836 and $443,108 to selling and administrative expenses in 2020 and 2019, respectively.

Company concessions

Axtel has a Single Concession for commercial use, under which it is authorized to provide any telecommunications and/or broadcasting service, including, but not limited to local fixed and mobile telephony; national and international long distance, SMS (short message service), purchase or rental of network capacity for the generation, transmission or reception of data, signals, writings, images, voice, sounds and other information of any nature; rental of digital circuits, etc.

In 2020, the Federal Telecommunications Institute (IFT for its Spanish initials) delivered in favor of Axtel, upon acceptance of new conditions and payment of consideration, authorizations for the extension of the 20-year validity of the concessions to use, take advantage of and exploit frequency bands for specific use in the frequencies of 7 GHz. (1 concession), 10 GHz. (15 concessions), 15 GHz. (4 concessions), 23 GHz. (6 concessions) and 38 GHz. (5 concessions).

Through another subsidiary called Alestra Innovación Digital, S. de R. L. de C. V. the Company had another Single Concession for commercial use, with three associated concessions to use, leverage and exploit frequency bands for specific use at frequencies of 7 GHz (1 concession) and 10 GHz (2 concessions).

However, due to a corporate restructuring, various legal-regulatory acts were carried out to provide another subsidiary company called Alestra Servicios Móviles, S. A. de C. V., so that it would be the one that would provide the mobility services as of November 23, 2020, among which the transfer in its favor of the Single Concession for Commercial Use that Alestra Innovación Digital, S. de R. L. de C. V., which led to the transfer of the three concessions to use, exploit and exploit frequency bands for specific use in the frequencies of 7 GHz (1 concession) and 10 GHz (2 concessions) in favor of Axtel.

The Company's main commercial use concessions are as follows:

Service	Period	Expiration
Single concession for commercial use of Axtel (1)	30 years	2046
Single concession for commercial use of Alestra Servicios Moviles	30 years	2048
Various radio spectrum frequencies for the provision of point-to-point and point-to-multipoint microwave links	20 years	2038

(1) Concession valid for 30 years and renewable up to equal terms, provided that the Company is in compliance with all its obligations of the concession, as well as those contained in the legal, regulatory and administrative provisions.

Impairment testing of goodwill

Goodwill is comprised of the amount paid in excess of the carrying amount of net assets and liabilities of $322,782, which were allocated to the services segment.

During 2020, goodwill impairment was recorded for $ 96,754 associated with the Company S&C Constructores de Sistemas, S. A. de C. V.

The following describes the discount rates and long-term growth rates used for the years ended December 31, 2020 and 2019:

	2020	2019
Discount rate, after tax	10.2%	10.5%
Long-term growth rate	3.2%	3.6%

13. Other non-current assets

	2020	2019
Investments of shares	$291,816	$294,530
Prepaid connection leases	10,468	21,238
Guarantee deposits	52,810	41,192
Prepaid maintenance	235,289	301,242
Other	62,241	83,695
Total other non-current assets	$652,624	$741,897

14. Trade and other accounts payable

Trade and other accounts payable are analyzed as follows:

	2020	2019
Current:		
Trade accounts payable	$2,375,715	$2,897,83
Related parties	480	8,018
Value added tax and other federal and local taxes payable	1,136,511	880,277
Accrued expenses payable	244,414	207,603
Other	94,173	175,265
	$3,851,293	$4,169,016
Non-current:		
Related parties	$ -	$ 703,348

15. Provisions

	Litigation	Restructuring [1]	Total
As of January 1, 2019	$23,629	$ 288,755	$312,384
Additions	14,187	86,070	100,257
Payments	(9,326)	(183,125)	(192,451)
As of December 31, 2019	$28,490	$ 191,700	$220,190
Additions	$ 2,292	$ -	$ 2,292
Payments	(12,365)	(191,700)	(204,065)
As of December 31, 2020	$18,417	$ -	$ 18,417

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

Provisions as of December 31, 2020 and 2019 are short-term.

16. Deferred income

Deferred income movements during the year are shown as follows:

	2020	2019
Beginning balance	$153,229	$ 536,452
Increases	491,935	1,054,418
Recognized income of the year	(529,110)	(1,437,641)
Ending balance	$116,054	$ 153,229

17. Debt

	2020	2019
Banco Nacional de Comercio Exterior, S.N.C	$ 3,243,750	$ 3,263,529
Syndicated loan	-	1,320,000
Senior Notes [1]	9,974,350	9,422,600
Export Development Canada (EDC)	987,590	-
MUFG Banck México	200,000	-
Banorte	110,000	-
Other loans	140,185	-
Accrued interest payable	105,809	111,853
Issuance costs	(117,398)	(150,040)
Total debt	14,644,286	13,967,942
Current portion of debt	(1,609,301)	(131,632)
Non-current debt	$13,034,985	$13,836,310

(1) 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	2020	2019
Bancomext[1]	Mexico	MXP	TIIE + 2.10%	6.57%	30/08/2028	Quarterly	$ 3,243,750	$ 3,263,529
Syndicated loan	Mexico	MXP	TIIE+2.75%	-	-	-	-	1,320,000
Senior Notes	International	USD	6.375%	6.64%	14/11/2024	Semi-annually	9,974,350	9,422,600
EDC	Canada	MXP	TIIE + 1.375%	5.86%	01/06/2021	Monthly	50,000	-
EDC	Canada	USD	LIBOR + 1.625%	1.77%	01/06/2021	Monthly	937,590	-
MUFG	Mexico	MXP	TIIE + 1.70%	6.18%	19/03/2021	Monthly	200,000	-
Banorte	Mexico	MXP	TIIE + 1.75%	6.22%	10/02/2021	Monthly	110,000	-
Other loans	Mexico	MXP	Various	Various	Various	Quarterly	140,185	-
Total bank loans							14,655,875	14,006,129
Debt issuance costs							(117,398)	(150,040)
Interests payable							105,809	111,853
Total debt							$14,644,286	$13,967,942

As of December 31, 2020, annual maturities of non-current debt are as follows:

	2022	2023	2024	2025 onwards	Total[1]
Bank loans	$ 128,563	$ 168,121	$ 227,458	$ 2,630,603	$ 3,154,745
Senior Notes	-	-	9,974,350	-	9,974,350
Other loans	22,807	481	-	-	23,288
	$ 151,370	$ 168,602	$10,201,808	$ 2,630,603	$13,152,383

(1) The total is presented gross of issuance costs.

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.

Fair value of non-current debt is disclosed in Note 4. Estimated fair values as of December 31, 2020 and 2019 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.

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 3.0 times.

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, 2020, for Senior Notes, the leverage ratio cannot exceed 4.25 times and for the bank loan 3.50 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, 2020 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.

18. Lease liability

	As of December 31, 2020	As of December 31, 2019
Current portion:		
USD:	$ 77,720	$ 186,801
MXN:	217,029	264,974
Current lease liability	$ 294,749	$ 451,775
Non-current portion:		
USD:	$ 131,101	$ 233,049
MXN:	495,923	633,049
	627,024	866,098
Less; Current portion of lease liability	294,749	451,775
Non-current lease liability	$ 332,275	$ 414,323

For the years ending on December 31, 2020 and 2019, changes in the lease liability related to the finance activities in accordance with the consolidated statement of cash flow are integrated as follows:

	2020	2019
Initial balance	$ -	$ 680,405
Financial lease reclassification	-	740,113
Beginning balance	866,098	1,420,518
New contracts	239,952	7,103
Write-offs	(22,159)	-
Interest expense from lease liability	68,157	99,072
Lease payments	(545,855)	(638,067)
Exchange gain (loss)	20,831	(22,528)
Ending balance	$ 627,024	$ 866,098

The total of future minimum payments of leases that include non-accrued interest is analyzed as follows:

	As of December 31, 2020	As of December 31, 2019
Less than 1 year	$308,942	$473,476
Over 1 year and less than 5 years	334,577	415,759
Over 5 years	6,999	12,989
Total	$650,518	$902,224

19. 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 $290,459 and $282,312 as of December 31, 2020 and 2019, 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:

	2020	**2019**
Obligations in the consolidated statement of financial position:		
Pension benefits	$444,764	$405,110
Post-employment medical benefits	7,624	8,076
Defined contribution additional liability	290,459	282,312
Liability recognized in the consolidated statement of financial position	$742,847	$695,498
Charge in the consolidated statement of operations for:		
Pension benefits	$ 68,416	$ 57,093
Medical benefits to retirement	603	447
	$ 69,019	$ 57,540
Remeasurements for accrued employee benefit obligations recognized in other comprehensive income for the year	$ 29,646	$ 70,625

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 fully funded.

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

	2020	**2019**
Present value of obligations equal to the liability in the consolidated statement of financial position	$742,847	$695,498

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

	2020	**2019**
As of January 1	$413,186	$345,892
Current service cost	40,105	25,023
Financial cost	28,914	32,517
Actuarial remeasurements	29,646	70,625
Past service cost	8,714	7,343
Benefits paid	(12,068)	(7,893)
Reductions	(56,109)	(60,321)
As of December 31	$452,388	$413,186

The primary actuarial assumptions were as follows:

	2020	**2019**
Discount rate	6.75%	7.00%
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%	$ (30,077)	$ 34,234
Medical inflation rate	1%	$ (9,046)	$ 6,746

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.

20. Income taxes

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

	2020	**2019**
Current income tax	$ (49,602)	$(73,606)
Deferred income tax	(364,025)	86,766
Prior years' adjustment	(379,006)	2,131
Income tax (expense) benefit	$(792,633)	$ 15,291

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

	2020	**2019**
Income (loss) before taxes	$1,153,888	$(353,309)
Statutory rate	30%	30%
(Expense) benefit at statutory rate	(346,166)	105,993
(Plus) less tax effect on:		
Tax effects of inflation	(118,037)	(145,179)
Non-deductibles	(31,591)	(43,483)
Other differences, net	(296,839)	97,960
Total income tax (expense) benefit charged to income	$ (792,633)	$ 15,291
Effective rate	(69)%	(4)%

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

	2020	**2019**
Tax loss carryforwards	$ 813,140	$1,274,483
Allowance for doubtful accounts	640,832	626,165
Property, plant and equipment	871,738	719,079
Provisions and other	405,326	262,916
Intangible assets and other	(190,493)	(6,356)
Deferred tax asset	$2,540,543	$2,876,287
Property, plant and equipment	$ (4,401)	$ (3,489)
Intangible assets and other	2,947	2,730
Deferred tax liability	$ (1,454)	$ (759)

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, 2020 for which a tax asset was recognized amount to $2,710,466. The Company reduced tax losses by $154,500 as their realization was not considered probable.

Tax losses as of December 31, 2020 expire in the following years:

Year of expiration	Amount
2021	$ 296,120
2022	68,408
2023	140,203
2024 onwards	2,360,235
	$2,864,966

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

	2020			2019		
	Before taxes	Tax charged/ (credited)	After taxes	Before taxes	Tax charged/ (credited)	After taxes
Effect of currency translation	$ 1,152	$ -	$ 1,152	$ (2,468)	$ -	$ (2,468)
Derivative financial instruments of hedging	(62,399)	18,720	(43,679)	(127,057)	38,117	(88,940)
Remeasurements of employee benefits	(29,646)	8,894	(20,752)	(70,625)	21,187	(49,438)
	$(90,893)	$27,614	$(63,279)	$(200,150)	$59,304	$(140,846)

21. Shareholders' equity

At the Ordinary General Shareholders' Meeting held on February 25, 2020, a reserve for the repurchase of shares of $ 400 million pesos was approved, which was partially used. For the year ended December 31, 2020, share repurchases were made for a total of 237,843,543 shares, which represented a decrease in the fund of $213,680.

At the General Ordinary Stockholders' Meeting held on February 26, 2019, a fund for the repurchase of shares of $150 million pesos was approved. It was also approved to reclassify the share issue premium to accrued results of $159,551 as a step prior to the creation of a stock repurchase reserve.

As of December 31, 2020 and 2019, the balance of the reserve for the repurchase of share is $186,320 and $93,464, respectively.

After the above-mentioned events, the Company's capital stock as of December 31, 2020 was $464,368 and was comprised of 19,837,069,861 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, 2019	20,249,227,481
Repurchase of shares	174,314,077
Shares as of December 31, 2019	20,074,913,404
Repurchase of shares	237,843,543
Shares as of December 31, 2020	19,837,069,861

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, 2020, the tax value of the CUFIN and tax value of the Capital Contribution Account (CUCA from Spanish) amounted to $705,299 and $26,052,146, 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.

22. Discontinued operations

Masive Segment Disposition

On May 1, 2019, the Company entered into a final agreement for the divestiture of the last phase of its fiber optic business (FTTx) from the massive segment located in León, Puebla, Toluca, Guadalajara and Querétaro in the amount of $1,150 million pesos to Megacable Holdings, S. A. B. de C. V. and subsidiaries ("Megacable"). Axtel transferred to Megacable 55 thousand residential customers and micro-businesses, 1,370 km of fiber network and other assets related to the operation of the massive segment in these cities.

Condensed information related to the consolidated statement of operations of the discontinued operation for the period ended May 1, 2019:

	2019
Revenues	$302,367
Cost of sales	(263,283)
Gross profit	39,084
Administration and selling expenses	(317,567)
Operating loss	(278,483)
Loss before taxes	(278,483)
Income taxes	83,545
Loss net income	(194,938)
Gain on sale of the discontinued operation	519,016
Income from discontinued operations, net of income taxes	$324,078

As of the date of the transaction held in 2019, the gain on sale of discontinued operations for $519,016, net of taxes, was determined by comparing the sale price of $1,150,000, less the net assets sold, transaction costs and tax effects for a total of $630,984.

Condensed information regarding the cash flows of the discontinued operation for the period ended May 1, 2019:

	2019
Cash flows from operating activities	$ (29,633)
Cash flows from investment activities	1,150,000

23. Revenues

a. Income for services:

	2020	2019
Voice	$ 1,283,749	$ 1,873,716
Managed networks	4,074,645	4,056,632
Internet data	4,551,367	4,419,477
Administrative applications	305,967	360,404
Hosting	518,727	740,579
System integration	770,191	557,797
Security	464,395	410,300
Cloud services	298,565	269,069
Other services	88,375	95,659
Total	$12,355,981	$12,783,633

b. Income by geographical areas:

	2020	2019
Mexico	$12,319,963	$12,743,540
Outside Mexico	36,018	40,093
Total	$12,355,981	$12,783,633

24. Expenses classified by their nature

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

	2020	2019
Service cost [(1)]	$ 3,458,788	$ 3,353,046
Employee benefit expenses (Note 27)	2,633,733	2,456,136
Maintenance	677,386	797,674
Depreciation and amortization	3,384,219	3,578,541
Advertising expenses	54,225	63,864
Energy and fuel consumption	272,669	351,402
Travel expenses	20,342	53,864
Lease expenses	893,842	892,752
Technical assistance, professional fees and administrative services	165,850	250,946
Other	22,296	148,120
Total	$11,583,350	$11,946,345

(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.

25. Other income (expenses), net

	2020	2019
Impairment of non-current assets	$(170,315)	$(113,462)
Gain (loss) on sale of property, plant and equipment [(1)]	2,022,963	(5,046)
Other income, net	147,221	55,055
Total other income (expenses), net	$1,999,869	$ (63,453)

(1) It includes the sale of the data centers. See Note 2.b.

26. Financial result, net

	2020	2019
Financial income:		
Interest income on short-term bank deposits	$ 38,878	$ 54,679
Other financial income	-	5,574
Total financial income	$ 38,878	$ 60,253
Financial expenses:		
Interest expense on bank loans	$ (408,080)	$ (562,108)
Interest expense on senior notes	(817,685)	(644,331)
Interest expense on leases	(68,157)	(99,072)
Expenses related to other interest and commissions	-	(1,626)
Financial expenses related to employee benefits	(28,914)	(32,517)
Other financial expenses	(55,179)	(129,098)
Total financial expenses	$(1,378,015)	$(1,468,752)
Exchange fluctuation (loss) gain, net:		
Gain on exchange fluctuation	$ 7,217,500	$ 2,855,976
Loss on exchange fluctuation	(7,602,784)	(2,565,701)
Exchange fluctuation (loss) gain, net	$ (385,284)	$ 290,275

27. Employee benefit expenses

	2020	2019
Salaries, wages and benefits	$2,191,558	$2,028,983
Social security fees	338,279	335,709
Employee benefits	40,105	25,023
Other fees	63,791	66,421
Total	$2,633,733	$2,456,136

28. Transactions with related parties

Balances with related parties as of December 31, 2020 and 2019, were as follows:

			December 31, 2020 Loans received from related parties				
	Accounts receivable	Accounts payable	Amount	Interest	Currency	Expiration date MM/DD/YY	Interest rate
Affiliates	$ 8,202	$ 480	-	-	-	-	-
Total	$ 8,202	$ 480	-	-	-	-	-

			December 31, 2019 Loans received from related parties				
	Accounts receivable	Accounts payable	Amount	Interest	Currency	Expiration date MM/DD/YY	Interest rate
Holding company	$ -	$ -	$ 219,600	$ 1,881	MXP	02/28/19	TIIE + 2.25%
Holding company (1)	-	-	483,748	4,144	MXP	02/28/21	TIIE + 2.25%
Affiliates	23,460	8,018	-	-			
Total	$23,460	$ 8,018	$ 703,348	$ 6,025			

(1) Indemnification (see Note 2).

Transactions with related parties for the years ended December 31, 2020 and 2019, 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, 2020		
	Income	Costs and expenses	
	Telecommunication services	Interests	Others
Holding company	$ -	$ 10,625	$ -
Affiliates	170, 756	-	9,480
Total	$ 170, 756	$ 10,625	$ 9,480

	Year ended December 31, 2019		
	Income	Costs and expenses	
	Telecommunication services	Interests	Others
Holding company	$ -	$ -	$ 84,935
Affiliates	165,087	5,803	-
Total	$ 165,087	$ 5,803	$ 84,935

For the year ended December 31, 2020, compensation and benefits paid to the Company's main officers totaled $116,791 ($106,080 in 2019), 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.

29. Contingencies and commitments

As of December 31, 2020, there are the following commitments and contingencies with respect to Axtel and subsidiaries:

I. Contingencies

Interconnection Disagreements with other Mobile Operators.

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

<u>2018 rates</u>

i. Two amparo lawsuits regarding interconnection (ITX), one by Axtel, S. A. B. de C. V. (Axtel), and the other by Alestra Comunicación, S. de RL de C. V (now Alestra Innovación Digital, S. de RL de CV), where it appears as an interested third party.

ii. January 2018: the Company was notified of two writs of amparo filed by Telcel against the rates for the 2018 period determined by the IFT, in compliance with the amparo judgment issued by the Second Chamber of the Supreme Court of Justice of the Nation (SCJN for its Spanish initials) within the file 1100/2015 (Zero Rate).

iii. Second instance matters.

iv. Current status: suspended on the SCJN's instruction at the request of the IFT, for being related to a series of lawsuits to be resolved by this Court, including one in which Alestra Innovación Digital appears as an interested third party. Likewise, in January 2019, the Company (where Axtel is an interested third party) was notified of an amparo lawsuit filed by Telcel against the rates resolved in 2018 (also as Virtual Mobile Operator) for the period of 2019 by of the IFT, which is pending today, as well as the 2018 tariff trial, this matter was also suspended, until the SCJN does not resolve a related matter.

<u>2019 rates</u>

i. An amparo lawsuit, in matters of ITX and virtual mobile networks, where Axtel appears as an interested third party

ii. January 2019: the Company was notified of awrit of amparo filed by Telcel against the rates determined by the IFT, in terms of ITX and as Axtel's Virtual Mobile Operator (OMV), for the period of 2019.

iii. Pending trial, first instance.

iv. Current status: suspended by instruction of the SCJN, for being related to a series of lawsuits to be resolved by this Court, including one in which Alestra Innovacion Digital appears as an interested third party.

<u>2020 rates</u>

i. An amparo lawsuit, in matters of ITX and virtual mobile networks, where Axtel appears as an interested third party

ii. January 2020: the Company was notified of awrit of amparo filed by Telcel against the rates determined by the IFT, in terms of ITX and as Axtel's Virtual Mobile Operator (OMV), for the period of 2020

iii. Pending trial, first instance. It is considered that the delivery of the sentence will eventually be suspended because it is to the matters that will be analyzed by the SCJN.

Nowadays, the Company and its advisers consider that the rates will prevail based on the resolutions obtained before the IFT.

It is estimated that the most adverse scenario is a referral of the matter to the IFT for the creation of a specific regulation for rates 2018, 2019 and 2020, in which the existing rate could be ratified as of today.

Therefore, the Company has recognized and paid the cost based on these rates and there are no provisions associated with this contingency.

b. Telefónica Group.

<u>2018 rates</u>

i. Two amparo lawsuits, on ITX and virtual mobile networks, where Axtel is an interested third party.

ii. January 2018: the Company was notified of two writs of amparo filed by Telefonica against the rates for the 2018 period determined by the IFT, in compliance with the amparo judgment issued by the Second Chamber of the Supreme Court of Justice of the Nation within the file 1100/2015 (Zero Rate).

iii. June 2018: the Company was notified of an amparo lawsuit filed by Telefonica against OMV's ITX rates for the period of 2018, determined by the IFT.

iv. Pending trial, first instance. It is considered that the delivery of the sentence will eventually be suspended because it is to the matters that will be analyzed by the SCJN.

v. Current status: suspended by instruction of the SCJN, for being related to a series of lawsuits to be resolved by this Court, including one in which Alestra Innovacion Digital appears as an interested third party.

<u>2019 rates</u>

i. Two amparo lawsuits, on ITX and virtual mobile networks, where Axtel is an interested third party.

ii. June 2019: the Company was notified of an amparo lawsuit filed by Telefonica against the rates for the period of 2019, determined by the IFT.

iii. Pending trial, first instance.

iv. Current status: suspended by instruction of the SCJN, for being related to a series of lawsuits to be resolved by this Court, including one in which Alestra Innovacion Digital appears as an interested third party

<u>2020 rates</u>

i. Two amparo lawsuits, on ITX and virtual mobile networks, where Axtel is an interested third party.

ii. June 2020: the Company was notified of an amparo lawsuit filed by Telefonica against the rates for the period of 2020, determined by the IFT.

iii. Pending trial, first instance. It is considered that the delivery of the sentence will eventually be suspended because it is to the matters that will be analyzed by the SCJN.

Nowadays, the Company and its advisers consider that the rates will prevail based on the resolutions obtained before the IFT.

It is estimated that the most adverse scenario is a referral of the matter to the IFT for the creation of a specific regulation for rates 2018, 2019 and 2020, in which the existing rate could be ratified as of today.

Therefore, the Company has recognized and paid the cost based on these rates and there are no provisions associated with this contingency.

c. Grupo Iusacell (today AT&T).

<u>2019 rates</u>

i. Two amparo lawsuits, on ITX and virtual mobile networks, where Axtel is an interested third party.

ii. June 2019: the Company was notified of an amparo lawsuit filed by AT&Ta against the rates for the period of 2019, determined by the IFT.

iii. Pending trial, first instance.

iv. Current status: suspended by instruction of the SCJN, for being related to a series of lawsuits be resolved by this Court, including one in which Alestra Innovacion Digital appears as an interested third party

<u>2020 rates</u>

i. Two amparo lawsuits, on ITX and virtual mobile networks, where Axtel is an interested third party.

ii. June 2020: the Company was notified of an amparo lawsuit filed by AT&T against the rates for the period of 2020, determined by the IFT.

iii. Pending trial, first instance. It is considered that the delivery of the sentence will eventually be suspended because it is to the matters that will be analyzed by the SCJN.

Nowadays, the Company and its advisers consider that the rates will prevail based on the resolutions obtained before the IFT.

It is estimated that the most adverse scenario is a referral of the matter to the IFT for the creation of a specific regulation for rates 2018, 2019 and 2020, in which the existing rate could be ratified as of today.

Therefore, the Company has recognized and paid the cost based on these rates and there are no provisions associated with this contingency.

c. Interconnection disagreements with Telmex & Telnor.

<u>2011 rates</u>

i. A lawsuit was filed by Telmex before the Federal Court of Administrative Justice (TFJA for its Spanish initials), Axtel is considered a third party interested.

ii. Trail resolved in favor of the interests of the Company by the TFJA.

iii. Telmex filed an amparo lawsuit against this decision, where the Collegiate Court (TC) granted Telmex the amparo for formal defects.

iv. TFJA, corrected formal defects and confirmed a rsolution favorable to Axtel’s interests

v. Current status: pending to the possibility that Telmex interposes some means of defense.

The company and its advisers consider that the rates will prevail based on the determined resolutions.

There is historical information of similar lawsuits that were resolved favorably. Therefore, to date, the Company has recognized, paid and compensated, the cost based on these rates, so there are no provisions associated with this contingency.

2012 rates

i. A lawsuit was filed by Telmex, Alestra is considered a third party interested.

ii. Trail resolved in favor of the interests of the Company by the TFJA

iii. Current status: Telmex filed a direct amparo, it is in the process of second instance.

The Company and its advisers consider that the rates will prevail based on the resolutions obtained before the IFT.

It is estimated that the most adverse scenario is a referral of the matter to the IFT for the creation of a specific regulation for rates 2018, 2019 and 2020, in which the existing rate could be ratified as of today.

Therefore, the Company has recognized and paid the cost based on these rates and there are no provisions associated with this contingency.

2018 rates

i. Two lawsuits regarding ITX / OMV, Axtel is considered an interested third party.
ii. January 2018: The Company was notified of two amparo lawsuits, against the rates for the 2018 period, determined by the IFT
iii. Cases in process: OMV first instance and ITX in second instance
iv. Current status: suspended by instruction of the SCJN, for being related to a series of lawsuits to be resolved by this Court, including one in which Alestra Innovacion Digital appears as an interested third party

2019 rates

i. Two lawsuits regarding ITX / OMV, Axtel is considered an interested third party.
ii. January 2019: The Company was notified of two amparo lawsuits, against the rates for the 2019 period, determined by the IFT
iii. Cases in process: OMV first instance and ITX in second instance
iv. Current status: suspended by instruction of the SCJN, for being related to a series of lawsuits to be resolved by this Court, including one in which Alestra Innovacion Digital appears as an interested third party, and waiting to be resolved.

2020 rates

i. A lawsuit regarding ITX / OMV, Axtel is considered an interested third party.
ii. January 2020: The Company was notified of one amparo lawsuit, against the rates for the 2020 period, determined by the IFT
iii. Trial pending, first instance. It is considered that the delivery of the sentence will eventually be suspended because it is related to the matters that will be analyzed by the SCJN.

As of the date of issuance of the consolidated financial statements, the Company and its advisers consider that the rates will prevail based on the resolutions obtained before the IFT or the former Federal Telecommunications Commission (COFETEL).

It is estimated that the most adverse scenario is a referral of the matter to said Institute for the creation of a specific regulation for Rates 2018, 2019 and 2020, within which the existing rate could be ratified as of today.

Therefore, to date the Company has recognized and paid the cost based on these rates and there are no provisions associated with this contingency.

On the other hand, during 2016, the IFT began a process to review the preponderance measures imposed on América Móvil as a holding company for Telmex and Telcel. From this review, the agreement P / IFT / EXT / 270217/119 was issued by which the IFT plenary session modifies and adds the measures imposed on the AEP in 2014, which tend to generate a telecommunications sector where conditions of competition exist.

These measures were again modified in December 2020 by resolution P / IFT / 021220/488.

As of December 31, 2020, the preponderant agent status of Telmex, Telnor and Telcel has not been modified.

Lawsuits 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, Secretariat of Labor and Social Welfare, Secretariat of Social Development, National Population Registry, National Forestry Commission, Seguros Monterrey and the Government of Tamaulipas.

   To date, Solution Ware has filed various ordinary commercial lawsuits in which it claims Axtel to pay for some purchase orders for managed services, as well as interest, damages and lost profits in addition to legal expenses and costs; as of the date of these consolidated financial statements, Solution Ware has required payment of $91,776 and $US12,701 through a public broker.

   Lawsuits concerning the Government of Nuevo León, the National Population Registry and the Government of Tamaulipas are currently at a trial level.

   With regard to the lawsuits concerning the Merger Opposition agreements, the Secretariat of Labour and Social Welfare, CONAFOR and the Secretariat of Social Development definitively concluded in favor of the Company.

   At the date of issuance of the consolidated financial statements, the Company and its advisors believe that there is no real likelihood that these claims will succeed and, therefore, there are no book provisions associated with this contingency.

Lawsuits between Axtel vs. Integradores y Operadores del Norte S. A. de C. V.

ii. Axtel, in 2007, hired Integradores y Operadores del Norte S.A. de C.V. (ION).

   In 2017, ION filed a commercial lawsuit claiming Axtel to pay $ 113,000 for services, interest, damages and costs.

   In October 2020, Integradores y Operadores del Norte, S.A. de C.V, obtained a favorable protection, managing to modify the sentence in his favor to collect $ 12,199 from Axtel; however, Axtel fought the new resolution.

   As of the date of issuance of the consolidated financial statements, the Company is reserving the corresponding provisions for the sentence issued.

Compensatory Procedures in the Federal Superior Auditors (“ASF” for its Spanish initials)

iii. In June 2018, S&C Constructores de Sistemas was notified of a compensatory procedure processed at the ASF, claiming the total amount of $63,320, the foregoing resulted from an audit conducted to the Secretariat for Social Development (SEDESOL) and the Autonomous University of the State of Mexico.

   By May 2019, the ASF determined a compensation liability of $34,118, which was challenged and is pending.

   Notwithstanding the foregoing, the Company paid $36,768, according to the optical character recognition granted by the Tax Administration Service.

   In addition to the payment made, in December 2019, the SAT notified S&C of an update and surcharges of $38,024, a determination that will be challenged and which is pending.

   The administrative enforcement procedure is suspended by the Administrative Court, and the guarantee of the tax liability is pending.

   In this regard, the Company and its advisors consider an average possibility of obtaining a favorable result from the administrative-law action or, where appropriate, from the appeal.

Other contingencies and notes:

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

Derived from the Covid-19 health emergency, the SCJN, the Federal Judicial Branch, Federal Courts and Local Courts, have suspended terms and periods in various periods of 2020 and 2021, thus prolonging the processing and resolutions of the matters where the Company is part of.

30. Segment information

As of 2020, the information used by the CEO, who is the highest authority in making operational decisions, allocation of resources and evaluation of performance, is presented through its business units, Alestra being the services unit and Axtel Networks the infrastructure unit. Therefore, derived from the new approach of evaluating the business, the segment information of 2019 has been restructured for comparative purposes.

The portfolio of the services unit for the business and government segments includes advanced solutions for managed networks, collaboration and information technology (IT) such as systems integration, cloud services, cybersecurity, among others. On the other hand, the connectivity solutions of the infrastructure unit for wholesale clients or operators (including the services unit) include last-mile access, IP transit, spectrum, fiber to the tower and fiber to the data center, among others.

Axtel has the second largest fiber network in Mexico, with an infrastructure of approximately 43,300 kilometers of fiber (including 11,600 kilometers of capacity), with which it has the capacity to provide coverage to more than 90% of the Mexican market.

In addition to the two 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 Chief Executive Officer.

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 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:

2020	Services	Infrastructure	Inter-units	Total
Sales by segment	$9,824,022	$4,982,715	$(2,450,757)	$12,355,981
Service cost	(5,533,688)	(375,857)	2,450,757	(3,458,788)
Expenses	(944,721)	(37,771)	-	(982,492)
Business unit contribution (BUC)	3,345,613	4,569,088	-	7,914,701
Unallocated expenses	(1,466,523)	(2,141,909)	-	(3,608,432)
EBITDA	1,879,090	2,427,179	-	4,306,269
Sale of the data center	-	2,020,765	-	2,020,765
Adjusted EBITDA			-	6,327,034
Impairment of non-current assets				(170,315)
Depreciation and amortization				(3,384,219)
Depreciation and amortization of discontinued operations				-
Less the effects of discontinued operations				-
Operating income				2,772,500
Financial result, net				(1,618,612)
Financial result, net of discontinued operations				-
Income (loss) before taxes				$ 1,153,888

2019	Services	Infrastructure [2]	Inter-units	Total
Sales by segment	$10,176,900	$5,170,315	$(2,563,582)	$12,783,633
Service cost	(5,434,750)	(481,878)	2,563,582	(3,353,046)
Expenses	(972,418)	(69,772)	-	(1,042,190)
Business unit contribution (BUC)	3,769,732	4,618,665	-	8,388,397
Unallocated expenses	(1,590,692)	(2,331,868)		(3,922,560)
EBITDA	2,179,040	2,286,797	-	4,465,837
EBITDA of discontinued operations				625,749
Adjusted EBITDA				5,091,586
Impairment of non-current assets				(113,462)
Depreciation and amortization				(3,578,541)
Depreciation and amortization of discontinued operations				(162,780)
Less the effects of discontinued operations [1]				(462,968)
Operating income				773,835
Financial result, net				(1,127,143)
Financial result, net of discontinued operations				-
Income (loss) before tax				$ (353,308)

(1) The items of the discontinued operation that were analyzed as operating item in 2019 are comprised of the operating income of the massive segment plus the gain on sale of the discontinued operation of $519,016, presented in Note 22, gross of the corresponding taxes.

(2) Includes the results of the data center transaction.

31. Subsequent events

In preparing the consolidated financial statements, the Company has evaluated the events and transactions for recognition or disclosure subsequent to December 31, 2020 and through January 31, 2021, (issuance date of the consolidated financial statements), and identified the following:

a) On January 8, 2021, the Company released the balances from the escrow originated from the sale of the data centers to Equinix, for US $ 13 million. See note 7.

b) On January 22, 2021, Rolando Zubirán Shetler, Chief Executive Officer of the Company, announced his retirement. The Company's Board appointed Eduardo Escalante Castillo as Acting Chief Executive Officer as of this date, and during the selection process of Axtel's new Chief Executive Officer.

32. Authorization to issue the financial statements

On January 31, 2021, the issuance of the accompanying consolidated financial statements was authorized by Eduardo Escalante Castillo, 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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