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Ticker: "AXTELCPO"

ANNUAL REPORT

presented in accordance to the general provisions that apply to the Issuers of securities and to other participants of the securities market for the year ended on December 31, 2020

Characteristics of the Securities: The securities that are traded in the Mexican Stock Exchange (Bolsa Mexicana de Valores) ("BMV") are "Ordinary Participation Certificates" ("CPO's"), which are non-amortizable securities, issued under the CPO's Trust (which term is defined below), each of which represents 7 Series "B", Class "I" Shares of the capital stock of Axtel, S.A.B. de C.V. ("Axtel" or the "Company"). The capital stock of the Company is Ps. 464'367,927.49 represented by 20,249,227,481 registered common shares, Class "I" Series "B", with no par value, all of which are fully subscribed and paid. At the date of this Annual Report, the capital stock of Axtel does not have shares issued or subscribed in its variable part.

Registration at the National Registry of Securities ("RNV") does not imply a certification regarding the quality of the registered securities nor Axtel's solvency or accuracy or reliability of the information contained in the Annual Report nor validates the acts, if any, that might have been made in contravention of the law.

For any questions with regards to this Annual Report, please contact Mr. Adrian de los Santos at the phone number (81) 8114-1128 or via e-mail to ir@axtel.com.mx.

This Annual Report is available at Axtel's web page at *www.axtelcorp.mx* and at the BMV's web page at *www.bmv.com.mx*.

San Pedro Garza García, N.L., as of April 29, 2021.

1) GENERAL INFORMATION

1.1) Glossary of Terms and Definitions

The following glossary includes the definitions of the main terms and abbreviations used in this Annual Report:

“ADSs”	American Depositary Shares, each one representing 7 CPOs, and each CPO representing 7 Series B Shares.
“Alestra”	Alestra, S. de R.L. de C.V., which was merged into the Issuer on May 1, 2017. Prior to the Alestra Merger, Alestra was the IT and telecommunications business unit of Alfa. Commercial name of Axtel’s Services Business Unit.
“ALFA”	Alfa, S.A.B. de C.V., Axtel’s major shareholder
“ALTAN”	ALTAN Redes, S.A.P.I. de C.V., winner consortium on November 17, 2016 of the international contest promoted by Mexico’s Ministry of Communications and Transport (SCT) for the construction and operation of a nationwide 4G wholesaler network. On January 17, 2017, the SCT through the Investments in Telecommunications Promoting Organism (PROMTEL) and the Federal Telecommunications Institute (IFT), granted ALTAN a concession title for commercial use of a wholesaler network with expiration date of 20 years.
“America Móvil”	América Móvil, S.A.B. de C.V. including subsidiary and affiliate companies.
“AT&T”	AT&T Corporation, including subsidiary and affiliate companies.
“Audited Financial Statements”	The audited consolidated financial statements of the Company as of and for the fiscal years ended on December 31, 2020 and 2019 and as of and for the years ended on December 31, 2019 and 2018.
“Avantel”	Both Avantel Concesionaria and Alestra Innovación Digital, S. de R.L. de C.V.
“Avantel Concesionaria”	Avantel, S. de R.L. de C.V.
“Avantel Infraestructura”, “Alestra Innovación Digital”	Avantel Infraestructura, S. de R.L. de C.V., which changed its name to Alestra Comunicación, S. de R.L. de C.V.; and afterwards to Alestra Innovación Digital, S. de R.L. de C.V.
“Axtel”, “Company”, “Issuer”	Means Axtel, S.A.B. de C.V., together with its subsidiaries, except when in context the term Axtel refers only to Axtel, S.A.B. de C.V.
“Axtel Networks”	Commercial name of Axtel’s Infrastructure Business Unit.
“Banamex” or “Citibanamex”	Banco Nacional de México, S.A. member of Grupo Financiero Banamex and its affiliates.
“Bancomext”	Banco Nacional de Comercio Exterior, S.N.C.
“BBVA Mexico”	BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer.
“Bestel”	Bestel, S.A. de C.V., a telecommunications and IT services company, subsidiary of Televisa
“BMV”	Bolsa Mexicana de Valores, S.A.B. de C.V. (*Mexican Stock Exchange)*.

"Cablecom"	Grupo Cable TV, S.A. de C.V.
"Cablemás"	Cablemás, S.A. de C.V.
"Cablevisión"	Empresas Cablevisión, S.A.B. de C.V.
"Central Switchboard"	Equipment that frees voice data and sets up connections to establish a call.
"Circular Letter"	Means the general provisions that apply to the Issuers of securities and to other participants of the securities market, issued by the CNBV and published in the Official Federal Gazette on Wednesday March 19, 2003, as updated from to time to time.
"CNBV"	Comisión Nacional Bancaria y de Valores. *(Mexican Banking and Securities Commission)*
"Covid-19"	Infectious disease caused by the most recently discovered SARS-CoV-2 virus. This new virus and disease were unknown before the outbreak began in Wuhan, China, in December 2019 (Source: World Health Organization).
"CPOs"	Ordinary Participation Certificates, which are non-amortizable securities, issued under the CPOs Trust, each of which represents, 7 Series "B" Class "I" Shares of Axtel's capital stock.
"CPOs Trust"	It means the Irrevocable Trust Agreement No. 80471 named AXTEL CPO's, dated November 30, 2005, entered between the Company, as settlor, and Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, Fiduciary Division, as trustee, the purpose of which is, among others, to establish a mechanism that allows the allocation of Shares Series B into the trust for the issuance of CPOs that are eligible for trading in the BMV.
"Data Center"	A facility composed of networked computers and storage, used to organize, process, store and disseminate large amounts of data.
"dollars", "US $", "Dollars" or "USD"	Current currency of the United States of America
"EBITDA"	Defined by the Company as the result of adding to the operating (loss) income, the depreciation, amortization and impairment of assets.
"Estratel"	Estrategias en Tecnología Corporativa, S.A. de C.V., a wholly owned subsidiary of Axtel, specializing in the integration of IT solutions for the enterprise and government segments.
"Ethernet"	IEEE 802.3 protocol, a network protocol that controls how data is transmitted over a LAN.
"GHz"	Gigahertz (Thousands of millions of cycles per second) Frequency relative to a time unit
"GTel"	G Tel Comunicación, S.A.P.I. de C.V., company acquired by Alestra in 2013, currently merged into Alestra Comunicación, S. de R.L. de C.V.
"ICT"	Information and Communication Technologies
"IFRS"	International Financial Reporting Standards
"IFT"	Instituto Federal de Telecomunicaciones *(Federal Telecommunications Institute)*, industry regulator since September 2013.
"Indeval"	S.D. Indeval Institución para el Depósito de Valores, S.A. de C.V.

"INEGI"	Instituto Nacional de Estadística y Geografía *(National Institute of Statistics and Geography of Mexico)*
"Infrastructure Business Unit"	Axtel's business unit that participates in the market as a neutral operator under the commercial name Axtel Networks and provides connectivity solutions through fiber optic to satisfy the requirements of international and national operators, data center and tower operators, internet giants and content and cloud providers, as well as for Axtel's Services Business Unit.
"IP"	Internet Protocol
"IT"	Information Technologies
"KIO Networks"	The following companies, together or individually: SixSigma Networks México, S.A. de C.V.; Fundación KIO, A.C; Wingu Networks, S.A. de C.V.; SM4RT Security Services, S.A. de C.V.; Metro Net, S.A.P.I. de C.V.; Metro Net Hosting, S. de R.L. de C.V.; Operadora Metronet, S. de R.L. de C.V.; MasNegocio.com, S.A.P.I. de C.V.; Servicios de TI, S.A.; Servicios de TI, Dominicana, S.C., S.A.S. and Servicios de Tecnologías de Información de Misión Crítica, S.A.
"LAN"	Local Access Network
"LFTR"	Ley Federal de Telecomunicaciones y Radiofusión *(Federal Telecommunications and Broadcasting Law)* published in the Official National Gazette on July 14, 2014 and effective since August 13, 2014
"LIBOR"	London Interbank Offerred Rate.
"LMV"	Ley del Mercado de Valores *(Mexican Securities Market Law)* published in the Official National Gazette on December 30, 2005, as amended from to time to time.
"Maxcom"	Maxcom Telecomunicaciones, S.A.B. de C.V.
"Mass Market Segment"	Business segment consisting of residential customers and micro / small businesses, to which Axtel provided voice, data and video services (pay television) through its fiber network (FTTx) or wireless network. On December 17, 2018, Axtel sold most of this segment to Televisa, and on May 11, 2019, Axtel sold the rest to Megacable. For more information see section *1.3) Recent relevant events* of this Annual Report.
"Megacable"	Megacable Holdings, S.A.B. de C.V. including subsidiary and affiliate companies.
"Merger between Alestra and Axtel"	Means the merger between Axtel and Onexa that became effective on February 15, 2016, as of which date Alfa became the majority owner of Axtel and Alestra became a wholly owned subsidiary of Axtel.
"México"	United Mexican States.
"MHz"	Megahertz. Frequency in millions of cycles per Second. In radio, it refers to the number of oscillations of electromagnetic radiation per second.
"NAVE"	Axtel's corporate incubator focused on identifying and developing start-ups and scale-ups.
"Onexa"	Onexa, S.A. de C.V., the parent company of Alestra, which merged into Axtel, S.A.B. de C.V. on February 15, 2016. Prior to the Merger between Alestra and Axtel, Onexa was a wholly owned subsidiary of Alfa.

“pesos”, “M.N.”, “$”, or “Ps.”	Current legal currency in Mexico
“POPs”	Point of Presence, strategic point (physical place) where services are concentrated, it may have electronics and/or interconnections with other facilities or operators.
“S&C Constructores de Sistemas”	S&C Constructores de Sistemas S.A. de C.V., IT Mexican Company, subsidiary of Alestra.
“Series “A” shares”	Ordinary shares of the Series “A”, Class “I”, nominative, without par value, representing the fixed portion of the Company’s capital stock. At the Extraordinary General Shareholders’ Meeting on June 21, 2016, the consolidation of all shares representing the Company’s capital stock in a single Series was approved, through the conversion of Series “A” shares into Series “B” shares.
“Series B shares”	Ordinary shares of the Series “B”, Class “I”, nominative, without par value, representing the fixed portion of the Company’s capital stock.
“Services Business Unit”	Axtel’s business unit that, under the commercial name Alestra, continues to act as a technological partner and promoter of the digitization of business customers, made up of corporate, medium and large companies, financial institutions and government entities, which it serves with integrated ICT solutions, integrating and managing services, such as Managed Networks, Collaboration, Cybersecurity, Systems Integration, Cloud and Digital Transformation.
“Shares”	Ordinary shares, nominative, without par value, representative of the capital stock of the Company
“Softtek”	Valores Corporativos Softtek, S.A. de C.V.
“Telcel”	Radiomóvil Dipsa, S.A. de C.V. and/or affiliated companies that all together are subsidiaries of América Móvil, S.A.B. de C.V.
“Telefónica Movistar”, “Grupo Telefónica”	The following companies, together o individually: Pegaso PCS, S.A. de C.V., Baja Celular Mexicana, S.A. de C.V., Pegaso Comunicaciones y Sistemas, S.A. de C.V., Celular de Telefonía, S.A. de C.V., Telefonía Celular del Norte, S.A. de C.V., Movitel del Noroeste, S.A. de C.V., and Grupo de Telecomunicaciones Mexicanas, S.A de C.V.
“Televisa”	Grupo Televisa S.A.B., including subsidiary and affiliate companies.
“Telmex”	Teléfonos de México, S.A.B. de C.V., including subsidiary and affiliate companies that are considered subsidiaries of America Móvil
“Telnor”	Teléfonos del Noroeste, S.A. de C.V.
“TIIE”	Interest rate applicable to credit operations in Mexico. (Tasa de Interés Interbancaria de Equilibrio).
“Transtelco”	Transtelco Corporation
“Trustee”	Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, Fiduciary Division, as trustee of the CPOs Trust.
“RGUs”	Revenue Generating Units
“VPN”	Virtual Private Network

1.2) Executive Summary

This summary is not intended to contain all the information that may be relevant to make investment decisions on the securities mentioned herein. Therefore, investors should read the entire Annual Report, including financial information and relative notes, before making an investment decision. The following summary is prepared in accordance with, and is subject to, the detailed information and financial statements contained in this Annual Report. It is recommended to pay special attention to the "Risk Factors" section of this Annual Report to determine the desirability of making an investment in the securities issued by the Issuer.

Axtel is a Mexican company that serves its clients in their evolution towards the digital transformation of their organizations and in the creation of communication networks, offering services through two business units: the Infrastructure Unit, a neutral operator under the commercial name Axtel Networks, provides fiber optic connectivity solutions to satisfy the requirements of international and national operators, data center and towers operators, internet giants, and content and cloud providers, as well as for the Services Unit itself. On the other hand, the Services Unit, under the commercial name Alestra, continues to act as a technological partner and promoter of the digitization of more than 18 thousand business clients, including corporate, medium and large companies, financial institutions and government entities, to which it provides integrated ICT solutions, integrating and managing Networks, Collaboration, Cybersecurity, Systems Integration, Cloud and Digital Transformation services under the highest quality standards.

Axtel has the second largest fiber network in Mexico, with an infrastructure of approximately 44,300 kilometers of fiber (including 12,600 kilometers of capacity), 23,000 kilometers of long-distance network and 21,300 kilometers of metropolitan rings. In addition, it has 5 international border crossings and more than 1,000 points of presence in the network, and concessions in the spectrum bands of 7, 10.5, 15, 23 and 38 GHz. Axtel provides its services through an extensive hybrid wireless and wired local access network designed to optimize capital investments. Current options for last-mile access options for the Company's customers include fiber optic links through its metropolitan rings and point-to-point wireless technologies.

Axtel's vision is to be the best alternative in the digital experience through innovation to create value, and its mission is to enable organizations increase their productivity through digitalization. The Company's strategic goal by operating under two business units, Services and Infrastructure, is to serve its key markets in a differentiated manner, providing the best experience and service, and maximize the utilization of its assets, their growth potential and the value for shareholders. The Services Unit, Alestra, seeks to be the main digital transformation enabler in Mexico; therefore, the following business strategies were defined: (i) increase the proportion of Digital Transformation and IT revenues favoring organic and inorganic growth of cybersecurity, cloud and collaboration solutions; (ii) have the intellectual capital required to achieve the objectives of the Services Unit; and (iii) provide the best customer experience. Moreover, the Infrastructure Unit, Axtel Networks, seeks to be the leading neutral fiber optic network operator in Mexico in a high-growth market; as such, the following strategies were defined: (iv) become a solid long-term profitability vehicle; (v) be the main connectivity provider for mobile networks and data centers; and (vi) be highly efficient and agile through the digitalization of processes and operations.

The Company was incorporated under the corporate name of Telefonía Inalámbrica del Norte, S.A. de C.V., by means of public deed number 3,680, on July 22, 1994. In 1999, the Company changed its corporate name to Axtel, S.A. de C.V. Derived of certain amendments in the LMV, on December 4, 2006, the Company transformed into Axtel, Sociedad Anónima Bursátil de Capital Variable or S.A.B. de C.V. in compliance with the requirements and timeline of the LMV.

Since December 2005, Axtel's CPOs are traded in the BMV, so the Company periodically publishes its corporate, operating and financial information, which can be accessed in the web page of the BMV at *www.bmv.com.mx*. Likewise, the same information can be accessed in Axtel's web pages at *axtelcorp.mx* and *alestra.mx*, including information regarding its products and services.

On October 1, 2015, the Company, ALFA, Onexa and Alestra signed an agreement of understanding to merge the operations of Axtel and Alestra, creating a stronger competitor in the telecommunications market in Mexico. On December 3, 2015, ALFA, Onexa, Alestra and Axtel signed the definitive agreements, subject to the corresponding corporate and regulatory approvals, to carry out the merger of Axtel and Onexa. On January 15, 2016, Axtel and Onexa held Extraordinary Shareholders' Meetings where the merger was approved, and the members of the Board of Directors, the CEO and the Audit and Corporate Practices Committee were appointed. After completing the legal, operational and financial review process, and obtaining authorizations from the authorities, the transaction became effective on February 15, 2016, date on which ALFA became the majority shareholder of Axtel, receiving 9,668,965,488 Series B Class I shares, extinguishing the merged company and surviving only the merging entity under its current corporate name Axtel, S.A.B. de C.V. ("the merger" or "the merger between Axtel and Alestra"). Consequently, Alestra became 100% subsidiary of Axtel.

In accordance with the resolutions adopted by the Extraordinary Shareholders' Meeting held on January 15, 2016 aforementioned, on July 18, 2017 Axtel announced the additional delivery of 1,019'287,950 Series "B" Class "I" shares to ALFA, titles held in the treasury department as a result of applying an average exchange rate formula between the Mexican Peso and US Dollar, considering an eighteen-month period as of January 15, 2016

After finalizing the sale of most of the mass market fiber business in late 2018, Axtel completed the divestment of this business in its entirety in 2019. In addition, in 2019, Equinix Inc., world leader in data centers, acquired the operations and assets of three Axtel data centers.

With respect to the twelve-month period ended December 31, 2020, Axtel's revenues reached Ps. 12,356 million, operating profit and EBITDA totaled Ps. 2,773 million and Ps. 6,327 million, respectively, which include Ps. 2,021 million of benefit from the data centers divestment. Axtel recorded a pre-tax profit of Ps. 1,154 million, a net profit of Ps. 361 million. At the end of 2020, cash totaled Ps. 3,124 million, restricted cash totaled Ps. 262 million, which was released in January 2021, and total debt (including accrued interest) reached Ps. 15,389 million.

In 2020, 45% of EBITDA came from the Services Business Unit and 55% from the Infrastructure Business Unit.

During 2019, Axtel generated income, operating profit and EBITDA in the amounts of Ps. 12,784 million, Ps. 774 million and Ps. 4,466 million, respectively. Axtel recorded a pre-tax loss of Ps. 353 million, a net profit from discontinued operations of Ps. 324 million and a net loss of Ps. 14 million. At the end of 2019, cash totaled Ps. 858 million and total debt (including accrued interest) reached Ps. 14,834 million.

Finally, during 2018, Axtel generated revenues, operating profit and EBITDA for the amounts of Ps. 12,788 million, Ps. 695 million and Ps. 4,393 million, respectively. EBITDA eliminating the profit from the sale of telecommunications towers to MATC was Ps. 4,169 million. Axtel recorded a loss before taxes of Ps. 969 million, a net profit from discontinued operations of Ps. 2,101 million and a net profit of Ps. 1,095 million. As of 2018, the Company's cash totaled Ps. 2,249 million, Ps. 94 million of restricted cash and Ps. 15,623 million of total debt (including accrued interests).

The financial information of the Company is detailed in subsection 3) FINANCIAL INFORMATION of this Annual Report.

The Mass Market Segment operations, the part of the fiber business sold to Televisa in 2018, as well as the portion sold to Megacable in 2019, were classified as discontinued according to the requirements from IFRS. Therefore, they are presented separately in the consolidated income statement of 2019 and 2018. For more information, see *Note 22* from the *Audited Financial Statements* included in this *Annual Report.*

Regarding the performance of the CPO, as of December 31, 2020, 2019 and 2018, the Company's share closed at Ps. 6.23, Ps. 3.07 and Ps. 2.97 per CPO respectively. See details throughout the years in Section *5.2) Stock Performance in the Stock Market*.

At the date of this Annual Report, the Company has a total of 20,249'227,481 ordinary, nominative, without par value Series "B" Class "I" shares, fully subscribed and paid; being ALFA entitled with 52.78% of the capital stock. At present, Axtel's capital stock does not have issued or subscribed shares in its variable part. As of March 31, 2020, there were 414'910,601 shares in Axtel's treasury, derived from the stock buyback program.

The Company's headquarters are located in Munich 175, Colonia Cuauhtémoc, San Nicolás de los Garza, Nuevo León, México, C.P. 66450. Its telephone number is (+52) (81) 8114-0000 and its web page is *axtelcorp.mx*.

1.3) Recent Relevant Events

2021

Stock buyback program - Axtel's Ordinary General Shareholders' Meeting of March 5, 2021

At the Ordinary General Shareholders' Meeting held on March 5, 2021, shareholders of Axtel approved, among other issues, that the maximum amount of resources to be used for the stock buyback during 2021 was Ps. 200 million

Debt Prepayment

On March 3, 2021, the Company redeemed US $60 million of its 6.375% Senior Notes due 2024, strengthening its financial structure and reducing interest expense. After the partial redemption, the aggregate principal amount of Notes outstanding is US $440 million. The partial redemption was made with cash funds obtained from the data centers transaction formalized in 2020.

2020

COVID-19 impacts

As a result of COVID-19, Axtel began operating under three main priorities, the safety and well-being of all employees, the needs and support of customers, as well as the continuity of the business and 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 enable customers to sustain remote and virtual interactions, such as connectivity, network access, cybersecurity perimeters and cloud solutions, among others.

The impacts of COVID-19 were mainly reflected in a Ps. 23 million increase in revenues of the enterprise segment related to the growth of bandwidth services. On the other hand, revenues declined of Ps. 40 million and working capital investment totaled Ps. 63 million due to granting longer payment term to clients.

As of the date of this Report, the Company's management continues to implement measures to face the economic market conditions, as part of its risk management strategy.

Final closing of agreement with Equinix

On January 8, 2020, Axtel announced the closing of its strategic agreement with Equinix to enhance its IT and cloud solutions. As announced on October 3rd, 2019, Equinix acquired the operations and assets of three Axtel data centers, two located in Queretaro and one in the metropolitan area of Monterrey. Valuation for this transaction represents US $175 million, settled in cash, except for US $13 million related to an escrow, which was released on January 8, 2021. (See Notes 7 and 31 of Audited Financial Statements).

Excluding operating expenses and escrow amount, proceeds of approximately US $157 million were used to strengthen the financial structure of the Company. The Company did not have an impact on the cash flow due to tax consequences, since it applied tax losses for Ps. 2,644 million.

2019

Sale of data centers

On October 3, 2019, Axtel entered into an agreement with Equinix, Inc. (Equinix) to strengthen its colocation, interconnection and cloud solutions by entering into two agreements, the definitive closing of this transaction took place on January 8, 2020. Equinix acquired a new subsidiary entity of Axtel, which houses the operations and assets of three data centers, two of these data centers are located in Querétaro and one in the metropolitan area of Monterrey. Axtel maintains a non-controlling shareholding over the new subsidiary entity.

The amount of the transaction is US $175 million settled in cash, except US $13 that will be receivable in the short term. The rest of the data centers owned by Axtel, located in Monterrey, Nuevo León and Guadalajara, Jalisco, are not part of this transaction.

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 Ps. 250 million, and the disposed portion of the Committed Line with Export Development Canada of Ps. 300 million. It also made payments to Alfa S.A.B. de C.V. of Ps. 917 million and Ps. 320 million for principal and interest, respectively. As a result of this prepayment, the Company immediately recognized the outstanding debt costs as of that date of Ps. 8 million.

Mass market segment sale

On May 1, 2019, the Company divested its Mass Market segment in the cities of Leon, Puebla, Toluca, Guadalajara and Querétaro, to Megacable Holdings, S.A.B. de C.V. and its subsidiaries (“Megacable”) through the sale figure of residential and microbusiness customers, fiber optic network and other assets related to the operation of the segment in these cities in exchange for Ps. 1,150 million, thus concluding the fiber optic mass market segment sale, process which started with the sale to Televisa in December 2018. Axtel recognized a gain of Ps. 519 million, which is presented under discontinued operations within the consolidated income statement. The Company did not have an impact on cashflow due to tax consequences, since it applied tax losses that were pending amortization of Ps. 730 million.

Merger between Avantel and Servicios Alestra - Axtel’s Extraordinary General Shareholder Meeting of February 26, 2019

At the Extraordinary General Shareholder Meeting held on February 26, 2019, shareholders of the Company resolved to merge by incorporation the subsidiaries Avantel, S. de R.L. de C.V. and Servicios Alestra, S.A. de C.V., as the merged entities, in Axtel, S.A.B. de C.V., as the merging entity.

Stock buyback program - Axtel’s Ordinary General Shareholder Meeting of February 26, 2019

At the Ordinary General Shareholder Meeting held on February 26, 2019, shareholders of Axtel resolved that the maximum amount of resources to be used for the stock buyback during 2019 was Ps. 150 million.

2018

Mass Market Segment sale and partial prepayment of loan facility

On December 17, 2018, the Company divested a significate portion of its Mass Market segment through the sale figure of assets, stock, inventories, clients and telecommunications equipment to Televisa for Ps. 4,713 million, recognizing a gain of Ps. 1,950 million, which is presented in discontinued operations within the consolidated income statement. The remainder of the Mass Market Segment that was not disposed of in this transaction; continued to be operated by the Company as of December 31, 2018.

On December 21, 2018, with the proceedings obtained from the transaction, Axtel made a partial prepayment of the syndicated loan facility held with HSBC, as lead coordinator of the participating financial institutions, for Ps. 4,350 million; reducing the outstanding principal balance to Ps. 1,570 million as of December 31, 2018.

Sale of telecommunication towers to MATC Digital, S. de R.L. de C.V.

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

The transactions for the sale of telecommunication towers resulted in a net profit of Ps. 224 million, which is presented within operating income.

Debt restructuring

On February 22, 2018, the Company's syndicated its long-term facility with HSBC México, increasing the amount by Ps. 291 million, from Ps. 5,709 million to Ps. 6,000 million, maintaining the same conditions as the original agreement. The proceeds obtained from this additional loan were used to pay short-term debt of Ps. 400 million with HSBC México.

On August 30, 2018, the Company entered into a debt restructuring agreement with Bancomext to exchange the original debt of US $171 million to a new debt of Ps. 3,263 million. The term of the new debt is 10 years with quarterly principal payments from the third year and with a 91-day TIIE interest rate plus 2.1%. The Company accounted for this transaction as an extinction of the liability in dollars according to the IFRS 9 Financial Instruments, recording an impact in the income statement of Ps. 7 million as a loss in the extinguishment.

Sixth Clause Reform of the Company's bylaws - Axtel's Extraordinary General Shareholder Meeting of February 27, 2018

On July 18, 2017 and in accordance with the resolutions adopted at the General Shareholders' Extraordinary Meeting held on January 15, 2016 relating the merger of Onexa in Axtel, Axtel delivered to ALFA 1,019,287,950 Class "I" Series "B" shares, representing an additional ownership to ALFA of 2.50% in Axtel's capital stock. The shares were previously held in Axtel's treasury, which were released as part of the consideration for the merger. As a result, ALFA's ownership in Axtel as of July 2017 is 52.78%.

By virtue of the above, on February 27, 2018, in the General Shareholders' Extraordinary Meeting, the Company's Shareholders resolved to reform the Sixth Clause of Axtel's bylaws, adjusting the text to show that the total shares previously held in the treasury, are now fully subscribed, paid and released.

Common shareholders' representative - Axtel's Ordinary General Shareholder Meeting

On February 8, 2018, at the General Ordinary Shareholders' Meeting, shareholders resolved the substitution requested by Banco Invex, S.A., Institución de Banca Múltiple, Invex Grupo Financiero as common representative of Axtel CPOs' holders, to cease the exercise of such duty; as well as the designation of Banco Monex, S.A., Institución de Banca Múltiple, Monex Grupo Financiero as the new common representative of Axtel CPOs' holders. Additionally, the modification of the CPO Trust as well as the Axtel CPOs' issuance Act were modified in order to reflect the pertinent modifications related to the elimination of restrictions previously established for foreign Axtel CPOs holders, as a way to equalize the corporate rights among the holders of CPOs, without nationality distinction, and to make changes regarding the designation of the new common representative of the holders.

1.4) Risk Factors

The investing public should carefully consider the risk factors described below before making any investment decisions. The risks and uncertainties described below are not the only risks faced by the Company. The risks and uncertainties that the Company does not know, as well as those that the Company considers at present as minor, could also affect its operations and activities.

The performance of any of the risks described below could have a material adverse effect on the Company's operations, financial condition or results of operations.

The risks described below are intended to highlight those that are specific to the Company, but which in no way should be considered as the only risks that the investing public may face. These additional risks and uncertainties, including those that generally affect the industry in which the Company operates, the geographical areas in which it has presence or those risks that not considered important, may also affect its business and investment value.

Information other than historical information included in this Annual Report reflects the operational and financial perspective in relation to future events and may contain information on financial results, economic situations, trends and uncertain facts. The expressions "believe," "expect," "estimate," "consider," "forecast," "plan," and other similar expressions identify such estimates. In evaluating such estimates, the potential investor should consider the factors described in this section and other warnings contained in this Annual Report. Risk Factors describe non-financial circumstances that could cause actual results to differ materially from those expected based on forward-looking statements.

1.4.1) Risks Related to the Company

Axtel operates in a highly competitive environment, it competes with companies that have greater financial resources and experience significant pressure on rates, all of which may negatively affect its operating margins and results of operations.

The telecommunications industry in Mexico is competitive. With the convergence of services, competition has intensified, and Axtel competes with established telecom companies such as Telmex, Televisa, Telecom, Megacable, Totalplay, Transtelco, Maxcom, among others, and IT providers such as KIO, IBM, Scitum, Triara, Softtek, among others.

Axtel has experienced and expects to continue experiencing pricing pressures, primarily as a result of:

- More competitive market in the “new normal”;
- focus of competitors on growing their market share;
- deployment of significant capital resources that result in rate subsidies;
- recent technological advances that allow substantial increases in the capacity of new and existing fiber optic networks, resulting in long distance overcapacity;
- greater participation of traditional fixed telephony service providers;
- the continued convergence and bundling of telecommunications and IT services.

If there are further declines in telecommunication services’ prices in Mexico, Axtel will be forced to competitively react to those price declines by lowering its prices or risk losing market share, which would adversely affect its operating results and financial position.

Certain competitors have significantly greater financial resources and scale than Axtel. In particular, America Movil’s national network and its concessions, as well as its established customer base, give it a substantial competitive advantage.

Axtel’s ability to generate cash flow will depend on its ability to compete in the ICT industry in Mexico.

Competition in the ICT industry has increased significantly as competitors have faced a reduction in their margins from voice and data services. As a result, Axtel has been shifting its focus and sales efforts to new value-added and digital transformation services, including capturing future growth in providing information technology (IT) services in Mexico and connectivity to wholesale customers. This strategy has several risks, including:

- Continuous, rapid and significant changes in technology and new products in the field of IT, the competitive market for connectivity services.
- Uncertainty in the political and economic environment to make investments in telecommunications.
- The highly competitive nature of the ICT market.
- The stronger competitive position and scale of some of Axtel's competitors, such as América Móvil, which is the dominant provider of telecommunications services in Mexico.
- Limited flexibility in the Mexican regulatory framework applicable to telecommunications to obtain approval on proposed technology changes.
- Strict, unfavorable or delayed interpretations by regulators, in relation to the implementation of Axtel’s services, the offering of new services, or the integration of its services; and
- Additional competition from companies providing telecom and IT services.

Axtel depends on certain important customers that generate a substantial part of its income.

Axtel has more than 17,000 enterprise and government clients in Mexico; including national and multinational corporations, large and medium-sized companies in the financial sector, retail, education, manufacturing, among others, and federal, state and local entities of the government sector. Additionally, Axtel has important wholesale customers for its infrastructure unit.

In 2020, the top ten customers represented 27% of the Company's total sales. The two largest customers accounted for 8% and 6% of total sales, respectively.

If a major client reduces or terminates its relationship with Axtel under the terms contemplated in the respective contracts, it could affect the financial situation, income and operating results of Axtel. No other customer accounted for more than 5% of total revenues.

Contracts with the government segment have higher levels of uncertainty.

Government segment revenues represented 17%, 17% and 19% of total revenues for 2020, 2019 and 2018, respectively. The agreements are subject to a higher level of uncertainty since they can be rescinded if certain conditions are not met and a public tender process should be carried out for an extension or direct award. In addition, bidding processes for new contracts may or may not be postponed, depending on market conditions. The loss of market share or income from agreements with customers in the government segment can have a negative impact on Axtel's financial condition and results of operations.

The Company may be subject to disruptions in the continuity of its services and business processes.

Axtel has the systems and infrastructure to support its business, including technologies and control processes, which can be susceptible to interruptions due to disruptive events such as fires, floods, earthquakes, loss of electricity, technology failures, health situations that put employees at risk, among others.

The interruption in its operations for a prolonged time, could affect its operation, and, therefore, its sales and profitability. To manage this risk, Axtel has a Management System for Business Continuity, certified by the international standard ISO 22301.

An example of the above was that, in the face of the pandemic, Axtel activated its Business Continuity protocols, which allowed it to respond in a timely and safe manner, prioritizing the well-being of its collaborators and maintaining the continuity of operations remotely, maintaining the levels of service and commitments established. However, no assurance can be given that business continuity plans will be fully effective in the event of interruptions or failures in the Company's information technology systems.

The Company may be subject to cyberattacks, which may affect its information security.

Axtel's technologies, systems and networks, due to their line of business, may become the target of cyberattacks that could put its information and that of third parties for which it is responsible at risk.

To manage this risk, Axtel has an Information Security Management System certified by the international standard ISO 27001 along with others of international recognition, a robust architecture that constantly evolves according to new threats and existing trends, collaboration with intelligence organizations and the capabilities of its Cyber Defense Operations Centers to face the risk of cyberattacks and respond in a timely manner.

For example, in 2020, given the rapid establishment of remote work, cyberattacks increased worldwide, as a result, Axtel adopted new security controls (technologies and digital hygiene awareness campaigns) increasing the capacity of response to this type of event.

Although Axtel has not suffered material losses related to a cyberattack, it cannot be guaranteed that it will not occur in the future and could negatively affect its operations or financial situation. Furthermore, if Axtel fails to prevent the theft of valuable information, such as its financial data and/or confidential information, or if it fails to protect the privacy of customers and/or employees' data, the business may be adversely affected. Axtel continues to monitor and investigate both technological and cyberattack trends in order to continue improving its protection measures.

Risk that investments will not generate the expected income.

In 2020, 2019 and 2018, investments in network and infrastructure and intangibles totaled Ps. 2,144 million, Ps. 1,762 million and Ps. 1,871 million, respectively. Considering the investment in the Mass Market business that was recorded as a discontinued operation, Ps. 2,381 million were invested in 2018. It is expected that significant additional amounts will have to be invested to maintain and improve the network and expand capacity and business in the future, including acquisitions and the sale of non-strategic assets. Such investments and divestments, together with operating expenses, can affect the generation of cash flow and profitability, especially if additional revenues or efficiencies are not generated. Axtel forecasts that, in addition to maintaining strict control in the administration of the business, continuous growth will require attracting and retaining the necessary qualified personnel for efficient management of the growth mentioned. If the challenges cannot be overcome, operating results and the financial situation of the Company may be affected.

If strategic suppliers stop providing services, technologies and/or equipment to Axtel, its results of operations could be adversely affected.

Axtel's main suppliers include Cisco, Microsoft, Oracle, Fortinet, Equinix, among others. If any of these providers does not deliver the services, technologies and / or equipment necessary for Axtel's operations, and there is no alternate provider available, the ability to perform the necessary implementations to have the penetration and coverage sought would be negatively affected, which could affect the operating results of the Company.

The telecommunications sector is characterized by rapid technological change, which could require Axtel to make important capital investments to continue increasing its market share.

The telecommunications industry is subject to continuous, rapid and significant changes to technology or access networks and to the introduction of new products and services based on the demand by the market, as well as characteristics of the technological alternatives available, its costs and its adaptability to the company's environment. It is expected that new services and technologies applicable to the market will continue to emerge, making it impossible to predict the effect of technological changes on Axtel's business.

The systems and technologies may not be as efficient in the future as those used by competitors. Changes or advances in alternative technologies could adversely affect the Company's competitive position, forcing a significant rate reduction, additional capital investments and / or the replacement of obsolete technology. In case of obsolescence, it is possible that Axtel would not be able to access new technologies at reasonable prices. To the extent that equipment or systems become obsolete, it may be required to recognize a charge for impairment of these assets, which could have a material effect on the business and operating results.

On the other hand, the deployment of these technologies is susceptible to delays or may not meet the expected capabilities, which would result in slower growth and adversely affect operating results. In addition, if any of the ICT service providers stops supplying equipment and services, or if they do not allow the necessary actions to ensure the desired penetration and coverage, it could have a negative impact on the Company's results.

If Axtel does not successfully maintain, upgrade and efficiently operate accounting, billing, customer service and management information systems, it may not be able to maintain and improve its operating efficiencies.

Sophisticated information and processing systems are vital to Axtel's operations and growth, as well as its ability to monitor costs, render monthly invoices for services, process customer orders, provide customer service and achieve operating goals. The Company considers it has installed the necessary systems to provide these services efficiently. However, there can be no assurance that Axtel will be able to successfully operate and upgrade such systems, or that these systems will continue to perform as expected. Any failure in these systems could impair the Company's ability to bill, collect payment from customers and respond satisfactorily to customer needs, affecting its financial condition and results of operations.

Additionally, the recent separation of Axtel's operations into two business units (Alestra and Axtel Networks), implies systems and platforms separation projects, which are being carried out with all measures so as not to affect business continuity; however, such information migration process projects represent an additional risk to the day-to-day operation.

A system failure could cause delays or interruptions in the services, which could cause a loss of customers.

To be successful, the Company will need to continue providing its customers reliable service over its network. Some of the risks that our network and infrastructure are exposed to include:

- physical damage to access lines;
- power surges or outages;
- software defects; and
- disruptions beyond the Company's control.

Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause the loss of customers and/or the incurrence of additional expenses.

Axtel's operations are dependent upon its ability to protect its network infrastructure.

The Company's operations are highly dependent on its ability to protect its network infrastructure against damages from fire, earthquakes, hurricanes, floods, power loss, security breaches, software flaws and similar events, as well as building networks that are not vulnerable to the negative effects of such events. The occurrence of a natural disaster or other unanticipated problems at the facilities or at the sites of its switches, data centers or POPs could cause interruptions in the services Axtel provides. The failure of a switch, data center or POPs would result in the interruption of services to customers until necessary repairs are done or replacement equipment is installed. Repairing or replacing damaged equipment may be expensive. Any damage or failure that causes interruptions in operations could have a material adverse effect on Axtel's business, financial and operating results.

Any loss of key personnel could adversely affect the business.

Axtel's success depends, to a large extent, on the skills, experience and collaboration of the management team and key personnel and the correct strategic decision-making on the part of the governing body. There is a lack of qualified personnel in the Mexican market, which has increased the demand for experienced executives. Axtel's executive management team has extensive experience in the industry, and it is very important that they continue in the Company or be replaced by managers equally trained to maintain contractual relationships with the most important clients, as well as the efficient operation of the business. Lack of technical, managerial and industry experience of key employees could hamper the optimal business plan execution and could result in delays in the launch of new products, loss of clients, and diversion of resources for the personnel's replacement.

In order to guarantee that Axtel has the intellectual capital to achieve its objectives, and aware that competing companies may be interested in its personnel, plans for retention, succession, replacement and training of essential competencies were developed to guarantee the continuity of its operations. However, it cannot be guaranteed that Axtel will be able to retain or attract and hire highly trained, talented and committed personnel in a short time, to avoid affecting its ability to implement its business objectives.

Any deterioration in the relationships with its employees, changes in labor legislation, or the increase in labor costs can have a negative impact on Axtel's business, financial condition, results of operations and prospects.

At the end of 2020, Axtel had 4,458 employees in Mexico. Since Axtel sold its mass market segment in 2019, the Company no longer has unionized personnel. The Company is prepared so that any change in labor legislation does not generate drawbacks, it also has a 360° wellness program that supports the requirements specified in Nom 035. Any significant increase in labor costs, deterioration of relationships in any of its locations, whether due to employee turnover, changes in labor legislation or their interpretation, could have a material adverse effect on the business, financial condition, results of operations and prospects.

Axtel's operations are subject to general litigation risks.

Axtel is involved in litigation on various matters, which have continuously arisen in the ordinary course of business, due to changes in regulations, State policies and the executive activity of the competent authority. An example of this are the various tax reforms published in the Official Gazette of the Federation and which will apply by 2020, of which strict care must be taken and compliance with this new regulatory framework in this area to avoid litigation against the tax authority, as litigating these types of cases, even if successful results were obtained, would be the least, since in recent years the Supreme Court of Justice of the Nation has granted favorable judgments in various relevant cases to the referred tax authority. Trends and litigation expenses and litigation results cannot be predicted with certainty and adverse litigation trends, expenses and results could have a material adverse effect on Axtel's business, financial condition and results of operations.

Axtel depends on Telmex for indirect interconnection or last-mile acceses, if in the future Telmex ceases to be an economic preponderant agent and is allowed to charge interconnection fees higher than those currently applicable under the LFTR, such development could have a material adverse effect on the Company's business and operating results.

Axtel has entered into contracts with Telmex for various telecommunications services, including dedicated links and last mile access infrastructure, in which if Telmex breaches the agreed contractual conditions and stops providing the services, it would be subject to penalties and sanctions for part of the IFT, generating possible impacts to the Company. If Axtel was previously unable to migrate customers to its own network, it would be detrimental to its operations, business, financial condition and results of operations.

Since July 4, 2014, when the LFTR was announced, the IFT determined that América Móvil and its subsidiaries, Telmex and Telcel, are preponderant economic agents in the telecommunications sector, imposing asymmetric regulations, such as not charging interconnection rates for traffic that ends in their networks, sharing their infrastructure and wireless and fixed services and providing access to their local network. However, on August 16, 2017, the Supreme Court of Justice of the Nation issued a resolution declaring unconstitutional a series of provisions of the LFTR related to the prohibition imposed on América Móvil of charging other companies for traffic termination services in their network.

Thus, the IFT determined the interconnection rates that fixed and mobile operators must pay to América Móvil. The resolution establishes that this rate will be based on international best practices, cost-oriented methodologies, transparency and reasonableness. The new interconnection rate became effective as of January 1, 2018. Axtel and other operators that compete with América Móvil will not be required to retroactively pay interconnection charges to América Móvil; however, América Móvil's interconnection rate in the future may increase significantly, which could have a material adverse effect on Axtel's business, financial condition and operating results.

In 2019, the IFT began the process of reviewing the preponderance measures imposed on América Móvil as a holding company of Telmex and Telcel, such process concluded in December 2020, so the existing measures, such as the functional separation of certain assets used for the unbundling of the local network and for the dedicated links remain in force. If the asymmetric regulation imposed on Telmex and Telcel is softened and / or eliminated in the future, this could have a material adverse effect on Axtel’s business, financial condition and results of operations.

In March 2020, the effective separation of the preponderant network was carried out. Therefore, an impact is expected in time of the processes derived from the new operation of Telmex and Telnor.

In December 2020, IFT issued the second biennial review of the Preponderance measures for both the wireless and fixed network markets, in particular for companies and subsidiaries of the fixed telecommunications market, it established measures that allow the preponderant player to set higher prices, either with free rates or less strict price control, for regulated wholesale input (fiber optic access network and dedicated links). Changes in regulation can potentially have negative effects on the market, so Axtel will seek to mitigate its effects through the necessary legal channels.

Notwithstanding the foregoing, IFT also imposed measures on the preponderant player that may have a positive impact on the market, such as the verification of non-discrimination between companies and subsidiaries of the same economic interest group and with respect to concessionaires that acquire wholesale inputs.

Axtel has experienced losses in the past in relation to derivative financial instruments.

Axtel enters into derivative financial instruments mainly to manage the risk associated with interest rates and to fully or partially hedge obligations contracted in foreign currency, such as debt service and investments denominated in US Dollars. The policy is to enter derivative operations for hedging purposes only, however, some derivative financial instruments may not qualify for hedge accounting under IFRS. The accounting for the market value of derivative financial instruments is reflected in the comprehensive income statement.

In addition, the Company faces the risk that the creditworthiness of the counterparties in such derivative financial instruments may deteriorate substantially. This could prevent its counterparties from fulfilling their obligations, which would expose the Company to market risks and could have a material adverse effect.

Axtel intends to continue using derivative financial instruments in the future. As a result, additional net losses may be incurred, and the Company may be required to make cash payments or post cash as collateral in relation to derivative financial instruments.

Derivative financial instruments may be subject to margin calls in the event the threshold or line of credit established by the parties is exceeded. If Axtel were to enter into such derivative financial instrument contracts, the cash required to cover such margin calls could be substantial and could reduce the funds available for its operations or other capital needs.

Insurance coverage may not be sufficient to cover future liabilities, including claims for litigation, either due to coverage limits or as a result of the insurers' denial of those obligations, which in any case, could have a material adverse effect on the Company's business, financial condition and results of operations.

Third party insurance coverage may not be sufficient to cover the damages that may be incurred if the amount of said damages exceeds the amount of the insurance coverage or if the damages are not covered by Axtel’s insurance policies. Such losses could cause unforeseen significant expenses that would result in an adverse effect on the business, financial situation and results of operations. In addition, insurers may seek to terminate or deny coverage with respect to future liabilities, including claims, investigations and other legal actions against the Company. This could have a material adverse effect on the business, financial situation and results of operations.

The Company has a majority shareholder, ALFA, whose interests may not be aligned with those of Axtel or its creditors.

Axtel is a subsidiary of ALFA, which indirectly owns 52.78% of the outstanding common shares. As such, ALFA has, and will continue to have, the power to control operations and may exercise control in a manner that differs from other interests. The interests of ALFA may differ from the interests of minority shareholders or creditors in material aspects, including with respect to, among others, the appointment of board members, the appointment of the CEO and the approval of mergers, acquisitions and other non-recurring activities. In addition, ALFA and a group of shareholders holding a portion of Axtel's capital share have entered into a shareholders' agreement for the purpose of defining their relationship as shareholders, as well as establishing certain restrictions on the transfer of shares between ALFA and said shareholders. This shareholder agreement contains, among other provisions, rules for the appointment of board members, provisions relating to matters requiring a qualified majority at shareholders' meetings and provisions on preemptive rights. Although each of ALFA's subsidiaries determines its own business plan according to the industry in which it operates, ALFA can exert a significant influence on Axtel's commercial strategy, administration and operations. Consequently, any commercial decision or changes in the global strategy of the majority shareholders could adversely affect the Company's business, financial situation and results of operations.

Axtel carries out transactions with different companies and affiliates, which could generate conflicts of interest.

Axtel has and will continue to carry out transactions with ALFA and several entities directly or indirectly owned or controlled by ALFA. Specifically, Axtel has entered into certain service contracts with affiliates in exchange for certain fees. Mexican law applicable to public companies and the Company's bylaws provide for several procedures, which include obtaining fair and favorable opinions from internal committees, designed to ensure that transactions entered with, or between subsidiaries and ALFA, do not deviate from market conditions including the approval of the board of directors for some of these transactions. Axtel is likely to continue to carry out transactions with ALFA and its affiliates or subsidiaries, and Axtel's subsidiaries and affiliates are likely to continue to transact between them, and there is no guarantee that the terms considered under market conditions will be considered as such by third parties. In addition, future conflicts of interest may arise between Axtel and ALFA or any of its subsidiaries or affiliates, conflicts that may not be resolved in favor of Axtel. See section "Transactions with related parties" on this Annual Report.

Fraudulent use of services may increase Axtel's operating costs.

The fraudulent use of telecommunications networks can generate a significant cost for service providers, who must absorb the cost of the services they provide to fraudulent users. It is possible that Axtel will see a reduction in its profits because of fraudulent use and will incur in additional expenses derived from the obligation of the Company to reimburse other telecommunications operators for the cost of the services provided to fraudulent users. Although technology has been developed to combat the fraudulent use of services, and Axtel has implemented such technology in its network, fraudulent usage cannot be eliminated entirely. Additionally, because Axtel depends on other long-distance interconnection companies to terminate calls on its networks, since some of these companies do not have anti-fraud technology, Axtel is exposed to the risk of fraud in long distance service.

1.4.2) Risks Relating to Indebtedness and Possible Bankruptcy

The level of indebtedness of Axtel could affect its flexibility of operation and the development of the business, as well as the capacity to fulfill its obligations.

As of December 31, 2020, total debt including accrued interest was Ps. 15,389 million. Such indebtedness could have significant implications for investors, including:

- Limit the ability to generate sufficient cash flow to meet obligations with respect to indebtedness, particularly in the event of a default under one of the instruments;
- Limit the cash flow available to finance working capital, capital investments or other general corporate requirements;

- Increase vulnerability to adverse economic and industry conditions, such as increases in interest rates, exchange rate fluctuations and market volatility;
- Limit the ability to obtain additional financing to refinance debt or future working capital, capital expenditures, other general corporate requirements and acquisitions, on favorable or unfavorable terms;
- Limit flexibility in planning for, or reacting to, changes in the business or industry; and
- Limit the ability to incur additional financing to make acquisitions, investments, or take advantage of corporate opportunities in general.

To the extent that additional indebtedness is incurred, the risks described above may increase. In addition, actual cash requirements may be higher than expected in the future. The cash flow from operations may not be sufficient to pay the entire outstanding debt as it reaches maturity, and the Company may not be able to borrow money, sell assets or otherwise raise funds on acceptable terms or at all, to refinance its debt.

Axtel may not be able to obtain financing if there is a deterioration in the credit and capital markets or reductions in the Company's credit ratings, which could hinder or prevent future capital needs from being met and refinancing existing debt at maturity.

A deterioration in the capital and credit markets could hinder the Company's ability to access these markets. In addition, adverse changes in Axtel's credit ratings, which are based on various factors, including the level and volatility of income, leverage ratio, liquidity and the ability to access a wide range of sources of funds, may increase the financial cost of the Company. If this occurs, there can be no guarantee that additional financing can be obtained, if necessary, from the credit and capital markets, or on acceptable terms or not at all. In addition, it is possible that the existing debt may not be refinanced when it reaches maturity in terms that are acceptable to the Company or not at all. If the Company is unable to meet its capital needs or refinance its existing indebtedness, it could have a material adverse effect on the business, financial condition and results of operations.

Axtel may require additional financing, which could aggravate the risks associated with its debt.

The Company may, in the future, require additional financing to finance its operations which would increase its leverage. To the extent that Axtel incurs additional indebtedness, the above risks could be increased.

Axtel operates in an intense capital investment industry and expects to make investments in the years to come as it enters into new technologies and expands the capacity and coverage of its existing network to exploit market opportunities and maintain its network infrastructure, switches and POPs accordingly with the needs of the market. In addition, it operates in a highly regulated industry and faces the risk of having the mandate of government agencies to increase capital investments or incur in other expenses that are not currently contemplated. There is no assurance that there will be sufficient resources available to make these investments or to cover potential expenditures requested by government agencies and that, if required, there is available funding or with terms and conditions acceptable to Axtel. In addition, the power to obtain additional financing will be limited to the terms and conditions of existing credit agreements or those entered in the future.

Adverse and volatile conditions in domestic or international credit markets, including higher interest rates, reduced liquidity or a decrease in interest by financial institutions in granting Axtel a credit, have increased in the past and could increase in the future the cost of funding or the possibility of refinancing debt maturities. This could have adverse consequences on the financial situation or operating results. There can be no assurance that the financial resources will be obtained to refinance the incurred debt or obtain proceeds from the sale of assets or the raising of capital to make payments of such debt.

The conditions and terms of the credit loans may restrict both the financial and operational ability of the Company.

The Committed Credit Facility signed in June 2018 limits, as well as de 2024 Senior Notes, limit Axtel's ability to, among other things:

- incur additional indebtedness;
- pay dividends or make distributions to its stockholders;
- create liens to secure indebtedness;
- make loans or investments;
- enter transactions with its affiliates;
- sell or transfer assets;
- merge or consolidate with other companies;
- enter new lines of business; and
- perform operations with financial derivative instruments.

Some limitations include financial ratios, which the Company may not have the ability to maintain in the future. The affirmative and negative covenants may limit its ability to finance future operations, capital requirements, enter into a merger or acquisition or enter into other favorable business activities.

1.4.3) Risks Relating to the Mexican Telecommunications Industry

Axtel operates in a highly regulated industry.

As a public service provider, the Company is subject to extensive regulation. The operation of telecommunications systems in Mexico is currently subject to laws and regulations administered by the IFT, aimed at regulating and promoting competition and the efficient development of the telecommunications and broadcasting industry in Mexico. Such laws and regulations have been modified in the past and can be modified or repealed repeatedly. Therefore, the Company may need to implement changes and / or adjustments in the operation to bring them into line with the current regulatory framework and comply with all obligations to avoid affecting the business. Adverse IFT interpretations can affect business and results of operations. See section *2.10.4) Reforms in the Telecommunications Sector in Mexico.*

If the Mexican government grants more concessions or amends existing concessions, the value of the Company's concessions could be severely impaired.

The Mexican government regulates the telecommunications industry. The concessions granted to Axtel are not exclusive and the Mexican government has granted and may continue to grant additional concessions to competitors within the same geographic regions. Axtel cannot guarantee that in the future the government will not grant additional concessions to provide services similar to those provided by the Company or that it will not modify the existing concessions and, therefore, cannot guarantee that the value of its concessions and its level of competitiveness will not be adversely affected.

Under Mexican law, Axtel's concessions can be expropriated or revoked.

In accordance with the LFTR, which came into force in August 2014, public telecommunication networks are considered public domain and the concession holders that install and operate them are subject to the provisions established in the LFTR and those other provisions contained in the respective concession title. The LFTR establishes, among others, the following provisions:

- The rights and obligations granted in the concessions can only be transferred with the prior authorization of the IFT;
- Neither the concession, nor the rights inherent to it or the related assets, may be subject to transfer, pledge, trust, mortgage or be committed or sold to the government or a foreign country;
- The Mexican government may require changes or modifications to the spectrum granted in the concession, in any of the following events: i) reasons of public order, ii) national security, iii) the introduction of new

technologies, iv) to solve interference problems, v) to comply with international treaties, vi) for reordering frequency bands and vii) for the continuity of a public service; and

- The Mexican government may take over, suspend or indent assets related to concessions in the event of natural disasters, war, significant public disturbances or threats to internal peace and for other reasons of public or economic order.

The reasons for expropriation vary and can be claimed by the Mexican government at any given time. The Mexican legislation provides a compensation for direct damages caused by the takeover, temporary suspension or requisition of property derived from the procedure, except in the case of war. However, if the concessionaire does not agree with the amount of compensation determined by the IFT, he may go to the Specialized Courts in telecommunications matters, to request its intervention so that it determines the amount in definite. If the Company's concessions are expropriated, there may be significant delays in the payment receipt of the applicable compensation. In addition, the amount of compensation payment may be insufficient to compensate the damages suffered. Also, the takeover of concessions may limit or extinguish the ability to continue with the business. The redemption or suspension of concessions would have a material adverse effect on Axtel's business and operating results.

Mexican legislation does not prevent the concessionaire from granting guarantees to creditors (except for those intended to be granted to the government or a foreign country) related to the concessions and their assets provided that the respective legislation is complied with; however, in the event that the guarantee is executed, the respective transferee must comply with the provisions in relation to the concessionaires, including, among others, the requirement to receive the authorization to be the holder of the concession by the competent regulatory authority.

The Company may face unfavorable conditions with respect to its concessions.

Derived from the concession titles, Axtel is subject to compliance with obligations and commitments established therein. Failure to comply with the conditions imposed in the concessions could result in a fine or even the revocation of the same. In 2020, IFT extended the radio spectrum frequency band concessions for an additional 20 years, after acceptance of new conditions and having made the respective payments.

The regulatory authority may require the Company to offer services in certain areas where it currently does not provide services and where it may experience a lower operating margin.

Derived from the authorizations to extend the validity of the concessions, in the new spectrum concession titles there is an obligation to participate in programs of social and population coverage, connectivity in public places and contribution to social coverage, for which the IFT may ask the Company to execute said programs, where the Company would provide services in certain geographic areas where it currently does not provide services.

Derived from technological advances, regulatory changes and lack of enforcement, Axtel is facing additional competition from new entrants in the market, which may result in a reduction in prices for its services, reduced income margins and / or the loss of market share.

Resulting from technological advances and regulatory changes, cable network operators entered the Mexican telecommunications market with combined services, which increased the level of competition. Several cable network providers have modified their concessions in order to offer telephony services. In addition to the above, and because the regulator has not been able to apply the regulations to suspend illegal provision of telecommunications services by entities that do not have the corresponding concessions, some of these companies providing telecommunications services at an international level are focusing on the Mexican market in order to offer and provide illegal telecommunications services.

The telecommunications market in Mexico is a highly concentrated market, characterized by the reduction of prices and margins. If potential new entrants in the market enter the market, it could be subjected to a price battle as Telmex, the most important player in the market, tries to maintain its dominant position. By having additional reductions in the price of telecommunications services in Mexico, Axtel would be required to react to such a reduction through similar actions or, in the absence thereof, would face the risk of losing part of its market share, all of which would adversely affect its business, financial condition and operating results.

Decreases in market rates for telecommunication services could have a material adverse effect on Axtel's operating results and financial condition.

The Mexican telecommunications market may continue to experience pressure on rates, primarily as a result of:

- increased competition and focus by Axtel's competitors on increasing market share; and
- recent technological advances that allow substantial increases in transmission capacity of both new and existing fiber optic networks resulting in long distance overcapacity.

If rate pressures continue, it could cause a material adverse effect on the Company's business, financial condition and operating results if they are unable to generate sufficient traffic and increased revenues to offset the impact of the decreased rates on its operating margin.

1.4.4) Risks Relating to Mexico and Other Global Risks

Global and Mexican economic conditions can adversely affect business and financial performance.

Global and Mexican economic conditions may adversely affect the business, operating results or financial situation of the Company. When economic conditions deteriorate, the financial stability of customers and suppliers may be affected, which could result in lower demand for services and products, delays or cancellations, increases in uncollectible accounts or breaches by customers and/or suppliers. Likewise, it could be more expensive or difficult to obtain financing to fund operations, investments or acquisition opportunities, or to refinance outstanding debt. If Axtel is not able to access the debt markets at competitive rates, or cannot access them, the ability to implement its business plan and strategies, or to refinance its debt, could be adversely affected.

The new government in Mexico, the volatility of the Mexican peso against the US dollar, the trade relationship between the United States and China, the fear of a global slowdown, among others, have caused volatility in credit, capital and debt markets. If the global economic deterioration or deceleration continues, or if the exchange rate of the Mexican peso against the US dollar depreciates considerably, Axtel could face a deterioration of its financial condition, a decrease in the demand for its services and/or a negative impact within its customers and suppliers. The effects of the current situation are difficult to predict and mitigate.

Weakness in the Mexican economy could adversely affect Axtel's business, financial condition and operating results.

Axtel's Operating results and financial condition depend partly on Mexico's economic activity level. Income in Mexico has a considerable dependence on oil, U.S. exports, remittances and commodities, and these variables are factors that are beyond the Company's control. External economic events could significantly affect Mexico's general economy and cause sudden economic shocks like those experienced in 2020 when Mexico's GDP declined 8.5% and in 2009 when it declined 5.3% (*Source: INEGI*). Volatility in Mexico's economy could significantly affect Axtel's business and operating results.

Political events in Mexico may affect Axtel's operations.

Failure and delay of political and economic reforms caused by differences between the legislative and federal powers, diverse policy objectives of each parliamentary group and differences in priorities in political parties' agendas, have been common in Mexico in the last few years. This has resulted in the reluctance of these political actors to build the agreements that Mexico needs regarding the economic, industrial and security sectors, among others. The lack of political agreement on reforms required by Mexico and a potential deterioration in relations between the various political parties and federal legislative powers could have an adverse effect on Mexico's economy and therefore affect Axtel's revenues and profits.

Social and political instability, as well as insecurity in Mexico and other adverse social or political events that affect Mexico could affect the Company's business, financial condition and operating results. In addition, Mexico has recently experienced periods of violence and crime due to organized crime activities. In response, the Mexican government has implemented several security measures and has strengthened its police and military forces. Despite these efforts, organized crime continues to exist in Mexico. These activities, their possible escalation and the violence associated with them, can have a negative impact on the Mexican economy or on Axtel's operations in Mexico in the future. Future developments in the Mexican political or social environment may cause interruptions in the Company's business operations and decreases in sales and net income.

Mexican federal governmental policies or regulations, as well as economic, political and social developments in Mexico, could adversely affect our business, financial condition, results of operations and prospects.

Axtel is a Mexican *sociedad anónima bursátil de capital variable* and substantially all its assets are located in Mexico. As a result, its business, financial condition, operating results and prospects are subject to political, economic, legal and regulatory risks related to Mexico. The Mexican federal government has, and continues to exercise, significant influence over the Mexican economy. The impact political conditions might have on the Mexican economy cannot be predicted. Furthermore, Axtel's business, financial condition, results of operations and prospects may be affected by currency fluctuations, price instability, inflation, interest rates, regulation, taxation, social instability and other political, social and economic developments affecting Mexico, over which the Company has no control. Political events in Mexico can significantly affect economic policies and, consequently, Axtel. It is possible that political uncertainty, especially around the new presidential administration, could adversely affect Mexico's economic situation and the operations and financial condition of the Company.

The Company cannot assure investors that changes in Mexican federal governmental policies will not adversely affect its business, financial condition, results of operations and prospects. Axtel does not have and does not intend to obtain a political risk insurance.

Developments in other countries could adversely affect the Mexican economy and Axtel's operating results.

As is the case regarding securities from issuers in other emerging markets, the market value of securities of Mexican companies is, to different degrees, affected by economic and market conditions in other emerging market countries. Although economic conditions in these countries may differ significantly from economic conditions in Mexico, investors' reactions to developments in any of these other countries may have an adverse effect on the market value of securities of Mexican issuers.

In addition, the correlation between economic conditions in Mexico and the US has increased in recent years because of T-MEC. As a result, a slowdown in the US economy and the uncertain impact it could have on general economic conditions in Mexico, could affect Axtel's financial condition and results of operations. In addition, due to recent developments in the international credit markets, capital cost and availability could be significantly affected and could restrict Axtel's ability to obtain financing or refinancing of its existing debt on favorable terms, if at all.

Changes in the United States government policies.

Changes in the policies implemented by the current presidential administration of the United States may affect the Mexican economy and may materially damage Axtel's business, financial situation and operating results. In addition, in 2018 the renegotiation of trade agreements that resulted in the treaty between Mexico, United States and Canada, or T-MEC, which replaces the North American Free Trade Agreement, was carried out. Any substantial change in US commercial policies, particularly any modification with respect to Mexico and T-MEC, could have a material adverse effect on the Mexican economy and the business, operating results and financial condition of the Company.

Axtel faces risks related to fluctuations in interest rates, which could adversely affect its operating results and its ability to pay debt and other obligations.

Axtel is exposed to fluctuations in interest rates. As of December 31, 2020, approximately 9% of Axtel's debt accrues interest at a variable rate. Changes in interest rates could affect the cost of this debt. If the interest rates increase, the service obligations of the variable rate would increase (even if the amount owed remains the same) and the net profit and the cash available for payment of debt would decrease. As a result, the financial situation, operating results and liquidity could be adversely and significantly affected. In addition, attempts to mitigate interest rate risk by financing long-term liabilities with fixed interest rates and the use of derivative financial instruments, such as variable to fixed interest rate swaps with respect to indebtedness, could result in failure to achieve savings if the interest rates fall, affecting negatively the Company's operating results and capacity to pay its debt and other obligations.

A devaluation of Mexican currency against the US dollar could have a material adverse effect.

While most of Axtel's revenues are denominated in pesos, most of its capital investments and 72% of its debt as of December 31, 2020 is denominated in dollars. In the past, the value of the Mexican peso has been subject to significant fluctuations against the dollar and may be subject to significant fluctuations in the future. The peso appreciated 0.3% in 2018, 4.4% in 2019, and depreciated 5.5% in 2020 against the dollar in nominal terms (*source: Banco de México*). Future devaluations of the value of the peso against the dollar could result in the disruption of the international currency markets. This may limit the ability of the Company to transfer or convert pesos to dollars and other currencies and adversely affect the ability to meet its current and future obligations. Any change in monetary policy, exchange rate regime or the exchange rate itself, derived from market conditions, could have a considerable impact, either positive or negative, on the business, financial situation, operating results and the prospects of the Company.

Mexico could experience high levels of inflation in the future, which could adversely affect the business, financial situation, operating results and prospects.

Mexico has experienced high levels of inflation and may suffer from high inflation levels in the future. Historically, inflation in Mexico has led to higher interest rates, peso depreciation and the imposition of substantial government controls on exchange rates and prices, which has adversely affected income and margins of companies. The annual inflation rate for the last three years, as measured by changes in the NCPI, was 4.83% in 2018, 2.83% in 2019 and 3.15% in 2020 (*Source: INEGI*). It cannot be asserted that Mexico will not experience high inflation in the future. A substantial increase in the Mexican inflation rate could adversely affect consumers' purchasing power and, consequently, the demand for Axtel services, as well as increasing some of the costs, which could adversely affect the Company's business, financial condition, operating results and prospects.

The approved modifications to Mexican tax laws may adversely affect the Company.

On December 11, 2013, certain reforms to Mexico's tax laws were enacted, effective as of January 1, 2014. The tax reforms resulted in various modifications to corporate tax deductions that were previously allowed in relation to third-party payments related to foreign entities and reducing tax deductions on wages paid to employees, the Income Tax, which had been programmed to be reduced, remained at 30%, among others. If the tax laws in Mexico are modified in the future, Axtel's business, financial condition and results of operations could be adversely affected.

Additionally, on December 9, 2019, a reform to the Income Tax law was published that, in principle does not imply adverse effects for Axtel; however, one of those changes limits the deduction of net interest for the year for up to 30% of adjusted tax profit. Adjusted tax profit meaning the sum of tax profit plus interest accrued, fiscal depreciation and amortization. For the rest of the interests not deducted in the year, rules were established that allow their deduction in a period not exceeding 10 years and if the amount of the adjusted tax profit is high enough to allow deduction. The foregoing, as already stated, does not imply an adverse effect for Axtel, however, if the economic conditions change and recurring and sufficient tax profits are not generated, there could be the risk of non-deductibility of a portion of interests.

Axtel is subject to laws and regulations against corruption, bribery, money laundering and antitrust laws in Mexico and other countries in which it operates. Any violation of such laws or regulations could have a material adverse impact on the reputation and operating results and financial condition of the Company.

Axtel is subject to laws and regulations against corruption, bribery, money laundering, monopoly and other international laws, and is bound to comply with applicable laws and regulations of the countries in which it operates. In addition, the Company is subject to regulations on economic sanctions that restrict its relationships with certain countries, individuals and entities sanctioned. There can be no assurance that internal policies and procedures will be sufficient to prevent or detect all improper practices, fraud or violations of the law by affiliates, employees, directors, officers, partners, agents and service providers. Any violation by Axtel of anti-bribery and anti-corruption laws or sanctions regulations could have a material adverse effect on the business, reputation, operating results and financial condition.

The COVID-19 outbreak could have an adverse effect on Axtel's business, financial condition, results of operations and prospects.

COVID-19 was declared a pandemic on March 11, 2020 by the World Health Organization. COVID-19 had and continues to have strong impacts on the health, economic and social systems worldwide, and it is not yet possible to quantify or define with certainty the scope of these impacts.
As a result of COVID-19, Axtel defined three main priorities, the safety and well-being of all employees, the needs and support for its customers, as well as the continuity of business 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. By virtue of the foregoing, the impacts of the COVID-19 pandemic were mainly reflected in an increase in revenues of Ps. 23 million related to the growth of bandwidth services. On the other hand, the impact on EBITDA and working capital investment was Ps. 40 million and Ps. 63 million, respectively.

Despite Axtel's efforts to take all reasonable measures to mitigate the impacts of COVID-19, it is not possible to predict the evolution of COVID-19 and the impacts that it may generate, and it might have negative impacts on the business, financial situation, liquidity, results of operations and perspectives of the Company. Axtel will continue to monitor the development of its businesses, complying with government regulations and responding in a timely manner to any changes that may arise.

Natural disasters, health epidemics, terrorist or organized crime activities, episodes of violence and other geopolitical events and their consequences could adversely affect Axtel's business, financial condition, results of operations and prospects.

Natural disasters, such as earthquakes, hurricanes, floods or tornadoes, have affected Axtel’s business, its suppliers and customers in the past and could do so in the future. If similar events occur in the future, there may be business interruptions, which could adversely affect material results of operations. In addition, the business could be affected by epidemics or health outbreaks, disrupting business operations. Terrorist attacks or the continuing threat of terrorism or organized crime in Mexico and in other countries, military action regarding this problem and the increase of security measures in response to such threats could have a significant impact in world trading levels. These activities, their possible escalation, and the violence associated with them could have a negative impact on the Mexican economy or Axtel’s operations in the future. Additionally, some political events could lead to prolonged periods of uncertainty that would adversely affect the Company’s business, financial condition, operating results and prospects.

1.4.5) Risks Related to the CPOs

The Company cannot guarantee that there will always be an active market for the stock that will give the necessary liquidity to shareholders.

The Company cannot guarantee the liquidity of the CPOs or that the market price could not decrease significantly. Circumstances like variations in the operating results in the present or future, changes or fails to achieve the estimations of revenues of the analysts, among others, could cause a significant decrease in the prices of the CPOs.

Lower levels of liquidity and higher levels of volatility in the Mexican Stock Exchange may cause fluctuations in the price and volume of Axtel's stock.

The Company has listed its CPOs in the BMV, a stock exchange brokerage of financial instruments and securities in Mexico. The Mexican stock market is substantially smaller in terms of trades, liquidity and is more volatile than most stock exchanges in the United States and other developed economies. These characteristics of the Mexican market could substantially limit the ability of CPOs holders to sell them, affecting its market price.

The price of Axtel's CPOs may be volatile, and investors may lose all or part of their investment.

The market price of Axtel's CPOs could fluctuate considerably and could be higher or lower than the market price paid. The price of the CPOs may fluctuate due to several factors, some of which are beyond Axtel's control and may not be related to its operating performance. The factors, including but not limited to, are the following:

- investors' perceptions of Axtel's prospects;
- differences between actual results and those expected by investors and financial analysts;
- the performance of Axtel's operations, that of its competitors, as well as other companies that provide similar services;
- the public's reaction to press releases or announcements made by Axtel or competitors;
- changes in general economic conditions;
- fluctuations in the exchange rate between the peso and US dollar;
- changes in Axtel's rating by the principal rating agencies;
- actions of Axtel's major shareholders with respect to the sale of shares;
- additions or departure of key personnel;
- acquisitions, divestments, strategic alliances or joint ventures involving Axtel or its competitors; and
- other developments affecting Axtel, the industry or competitors.

Future issuances of shares may result in a decrease of the market price of the CPOs.

Future sales by Axtel's existing shareholders of a substantial number of our Shares, or the perception that a large number of shares will be sold, could depress the market price of the CPOs.

Preemptive rights may be unavailable to certain holders of Axtel's CPOs, which may result in a dilution of such CPO holders' equity interest in the Company.

Under Mexican law, subject to limited exceptions, if Axtel issues new shares for cash as part of a capital increase, it must grant preemptive rights to its shareholders, giving them the right to purchase enough shares to prevent dilution. However, the CPO Trustee will offer holders of CPOs preemptive rights only if the offer is legal and valid in the CPO holder's country of residence. Accordingly, the Company may not be legally permitted to offer non-Mexican holders of CPOs the right to exercise preemptive rights in any future issuances of shares unless:

- Axtel files a registration statement with the SEC with respect to that future issuance of shares; or
- the issuance qualifies for an exemption from the registration requirements of the *Ley de Mercado de Valores*.

At the time of any future capital increase, the Company will evaluate the costs and potential liabilities associated with filing a registration statement with the SEC, the benefits of enabling U.S. holders of CPOs to exercise preemptive rights and any other factors that they consider important in determining whether to file a registration statement. However, Axtel has no obligation to file a registration statement and it might not file one. As a result, the equity interests of U.S. holders of CPOs would be diluted to the extent that such holders cannot participate in future capital increases.

Non-Mexican holders of Axtel's securities forfeit their shares if they invoke the protection of their government.

Pursuant to Mexican law, Axtel's bylaws provide that non-Mexican holders of CPOs may not ask their government to interpose a claim against the Mexican government regarding their rights as shareholders. If non-Mexican holders of CPOs violate this provision, they will automatically forfeit their CPOs to the Mexican government.

Holders of CPOs may face disadvantages when attempting to exercise voting rights as compared to an ordinary shareholder.

Shareholders may instruct the CPO Trustee on how to exercise their voting rights, if any, pertaining to the deposited Series B Shares underlying their securities. If requested, the CPO Trustee will try, as far as practical, arrange to deliver the voting materials. Axtel cannot assure shareholders will receive the voting materials in time to ensure that they can give timely instructions as to how to vote the Series B Shares. If the CPO Trustee does not receive the voting instructions in a timely manner, it will provide a proxy to a representative designated by the Company to exercise the shareholders' voting rights or refrain from representing and voting the deposited Series B Shares underlying their securities, in which case, those securities would be represented and voted by the CPO Trustee in the same way as the majority of the Series B Shares that are held by Mexican investors are voted at the relevant meeting. Meaning that shareholders may not be able to exercise their right to vote.

Minority shareholders may be less able to enforce their rights against Axtel, its board members or its controlling shareholders in Mexico.

Under Mexican law, the protections afforded to minority shareholders are different from those afforded to minority shareholders in the United States. For example, because Mexican laws concerning fiduciary duties of board members are not well developed, it is difficult for minority shareholders to bring an action against them for breach of this duty as permitted in most jurisdictions in the United States. The motives for shareholder actions under Mexican law are extremely limited, which in practice prevents most of these lawsuits in Mexico. Procedures for class action lawsuits do not exist under Mexican law. Therefore, it may be more difficult for minority shareholders to enforce their rights against Axtel, its board members, or its shareholders than it would be for minority shareholders of a U.S. company.

Any actions shareholders may wish to bring concerning Axtel's bylaws or the CPO Trust must be brought in Mexican court.

Pursuant to the Company's bylaws and the CPO trust documents, shareholders will have to bring any legal actions concerning bylaws or the CPO Trust in courts located in Monterrey, Nuevo Leon and México, regardless of their place of residence. Any action the shareholder may wish to file will be governed by Mexican laws. As a result, it may be difficult for non-Mexican national shareholders to enforce their rights as shareholders.

Axtel's bylaws contain certain provisions restricting takeovers which may affect the liquidity and value of the stocks.

Axtel's bylaws establish various provisions aimed at preventing the change of control of Axtel, including provisions regarding the transfer, sale, acquisition of shares representing Axtel's capital stock, such as (i) any person that directly or indirectly wishes to acquire shares in one or more transactions representing from 5% to 45% or more of Axtel's outstanding capital stock, and (ii) any competitor that directly or indirectly wishes to acquire or hold shares representing 3% or more of Axtel's outstanding capital stock, must obtain the prior approval of the Board of Directors and/or of the Company's shareholders, as the case may be. People who acquire shares in violation of these provisions of Axtel's bylaws will not be registered in the stock registry and will be obliged to transfer said shares to a third party previously approved by the Board of Directors and / or the shareholders' assembly. Therefore, these persons may not exercise the voting rights that correspond to said shares or receive dividends, distributions or other rights regarding these shares.

This restriction does not apply to transfers of shares by inheritance. These provisions of the bylaws will operate in addition to, and not affect, if any, the obligations to conduct public offerings and to disclose transfers of shares representative of Axtel's capital, established in the applicable legislation and the general regulations issued by competent authority.

This provision could discourage possible future purchases of CPOs and, accordingly, could adversely affect the liquidity and price of the CPOs. (See "Company's Bylaws and Other Agreements – Measures to prevent the change of control in Axtel" in this Annual Report).

1.5) Other Securities

a) At the date of the Annual Report, the Company has a total of 20,249'227,481 ordinary shares, with no par value, of Class "I" Series "B", fully subscribed and paid representing the fixed part of its capital stock. As of March 31, 2021, 414,910,601 shares are held in the Company's treasury, derived from the stock buyback program; and

b) The Company is listed on the BMV through non-amortizing CPOs issued under the Trust of CPOs, each one representing 7 Series "B" Class "I" Shares of Axtel's capital stock.

Since its listing in the BMV, the Company has delivered in complete form, the reports referred to by the LMV and by the Circular Única regarding relevant facts and periodic information required by these.

1.6) Significant Changes to the Duties of the Shares Registered in the Record Book

Not applicable.

1.7) Use of Proceeds

Not applicable.

1.8) Public Domain Documents

This Annual Report, as well as the quarterly reports and the press releases regarding relevant events, are available in Axtel's web page at: *axtelcorp.mx.*

Any clarification or information can be requested by sending a letter to the Company's address at Av. Munich 175, Colonia Cuauhtémoc, San Nicolás de los Garza, Nuevo León, C.P. 66450, to the attention of Adrian de los Santos, or by e-mail at *ir@axtel.com.mx.*

2) THE COMPANY

2.1) History and Development of the Company

The Company was incorporated under the name of Telefonía Inalámbrica del Norte, S.A. de C.V., by means of the public deed 3,680, dated July 22, 1994, formalized before Lic. Rodolfo Vela de León, Notary Public number 80 in Monterrey, Nuevo Leon. On 1999, the Company changed its name to Axtel S.A. de C.V., and due to the implementation of the changes incorporated by the LMV in December 2006, the Company became a *Sociedad Anónima Bursátil*, and its corporate name today is *Axtel, Sociedad Anónima Bursátil de Capital Variable* or Axtel, S.A.B. de C.V.

In June 1996, the Mexican government granted the Company a permit to install and operate a public telecommunications network to offer local and long-distance telephone services in Mexico for an initial period of 30 years. In 1998 and 1999, the Company won several radio-electric spectrum auctions, including 60 MHz at 10.5 GHz band for point-to-multipoint access, 112 MHz at 15 GHz band for point-to-point access, 100 MHz at 23 GHz for point-to-point last mile access and 50 MHz at 3.4 GHz for fixed wireless access, which together allow the Company to service the entire Mexican territory. In June 1999, Axtel launched commercial operations in the city of Monterrey, Nuevo Leon.

With the intention to continue with its sustained growth and in order to enhance its position of leadership in Mexico, on October 25, 2006, the Company entered into a contract with Banamex and Telecomunicaciones Holding, Mx, S. de R.L. de C.V., former controlling shareholders of Avantel, to purchase substantially all of the assets of Avantel Infraestructura, S. de R.L. de C.V., and the equity interests of Avantel Concesionaria, and Avantel Infraestructura for an estimate of US $516 million (including the acquisition of net liabilities of US $205 million). Following receipt of all required approvals from its shareholders and government regulators, Axtel completed the acquisition on December 4, 2006. Along with the acquisition of Avantel, in January 2007, the Company issued 246,542,625 new Series B Shares (represented by 35,220,375 CPOs). The new Series B shares were subscribed and paid at a price of Ps. 1.52 each.

Avantel was legally acquired in December 2006. Avantel Infraestructura and Avantel Concesionaria were incorporated in 1994 as a 55.5%-44.5% joint-venture between Banamex (through Promotora de Sistemas de Teleinformática, S.A de C.V) and MCI Telecommunications Corp. On June 30, 2005, several capitalizations in related debt and/or transfer of stocks were made resulting in a dilution of MCI Telecommunications Corp. participation to 10% in both companies. On June 30, 2005 Avantel Infraestructura and certain subsidiaries as “Asociados”, together with Avantel Concesionaria, as “Asociante”, entered into a “Asociación en Participación” agreement, with the intention for Avantel Concesionaria to provide services and operate a public telecommunications network of Avantel Infraestructura, and therefore Avantel Infraestructura provided as “Asociado” the above said telecommunications network, and the “Asociados” provided the agreements with clients, support services and human resources.

The integration of Avantel gave Axtel valuable spectrum in various frequencies, 390 kilometers of metropolitan fiber optic rings, 7,700 kilometers of long-distance fiber optic network, a robust IP backbone and connectivity in 200 cities in México, among others.

On October 1, 2015, the Company, Alfa, Onexa and Alestra signed a memorandum of understanding to merge Axtel and Alestra, creating an entity with a stronger competitive position in the Mexican telecommunications industry. On December 3, 2015, Alfa, Onexa, Alestra and Axtel signed the definitive agreements, subject to corporate and regulatory approvals, to merge Axtel and Onexa. On January 15, 2016, Axtel and Onexa held Extraordinary Shareholders' Meetings where the merger was approved and the members of the Board of Directors, CEO and the Audit and Corporate Practices Committees were appointed. After completing the legal, operational and financial reviews, and obtaining authorizations from the authorities, the transaction became effective on February 15, 2016, date as of which ALFA became the majority shareholder of Axtel, the merged company becoming extinct and only the merging company subsisting under its current name Axtel, S.A.B. de C.V. Therefore, as of that date, Alestra became a

100% subsidiary of Axtel. The merger between Alestra and Axtel created a new entity with a stronger competitive position and better capabilities to offer information and communication technology services to enterprise customers.

Alestra began operations in 1997 under an investment agreement between ALFA, AT&T and BBVA Mexico, and became a leading provider of IT and telecommunications services focused on the business segment with a portfolio of solutions including managed networks and IT services, such as security, systems integration and cloud services. Alestra merged into Axtel, as of May 1, 2017.

Subsequently, on July 21, 2016, the shareholders of the Company during an Extraordinary General Shareholders' Meeting resolved, among other matters, the rectification of the number of shares outstanding and shares held in the treasury previously approved by the Extraordinary General Shareholders' Meeting dated January 15, 2016, in which, among other acts, the merger between Axtel, as the merging company, and Onexa, as a merged company was approved, the latter being dissolved, in which it was stated that the pertinent modifications and adjustments would be reflected in the capital stock derived, among others, from the conversions exercised by the holders of the convertible notes into shares, issued in accordance with the resolutions adopted by Axtel on January 25, 2013. Therefore, the cancellation of 182,307,349 ordinary nominative Class "I" Series "B" shares without expression of nominal value, representing the capital stock in their fixed minimum part of Axtel, not subscribed nor paid, which had been deposited in the treasury of the Company in order to support the conversions of the notes, whose holders did not exercise their respective conversion rights was approved; as a result, the reduction of the capital stock was resolved, in the amount of Ps. 92'398,010.82; due to the cancellation of the 182'307,349 shares. Additionally, Axtel's capital stock was consolidated in a single series, by converting all Series "A" shares in circulation representing the Company's capital stock, into Series "B" shares, of the same characteristics.

Likewise, on March 10, 2017, by means of an Extraordinary General Shareholders' Meeting, the shareholders of the Company resolved to reduce the capital stock in its fixed minimum amount in the amount of Ps. 9,868,331.650.99 to remain the fixed minimum amount in Ps. 464,367,927.49, to partially absorb the negative balance of the account called "Cumulative losses", having previously applied the balance as of December 31, 2016 of the "Shares Issuance Premium" account.

On December 17, 2018, Axtel completed the divestment of its fiber business of the mass market segment located in Monterrey, San Luis Potosí, Aguascalientes, Mexico City, Ciudad Juárez and in the municipality of Zapopan to Televisa, for an amount of Ps. 4,713 million. In addition, on May 1, 2019, the Company divested the mass market segment located in León, Puebla, Toluca, Guadalajara and Querétaro, to Megacable in exchange for a consideration of Ps. 1,150 million, thus concluding the sale of the fiber optic business of the mass market segment.

On October 3, 2019, Axtel entered into an agreement with Equinix, Inc. (Equinix) in order to strengthen its collocation, interconnection and cloud solutions by signing two contracts, the final closing of the transaction occurred on January 8, 2020. Equinix acquired a new subsidiary entity of Axtel, which held the operations and assets of three data centers that belonged to Axtel; these data centers are located, two in Querétaro and one in Monterrey. Axtel maintains a non-controlling shareholding in the new subsidiary entity. The amount of the transaction was US $ 175 million, paid in cash.

The Company's life shall be unlimited, and its corporate domicile is in Av. Munich 175, Colonia Cuauhtémoc, 66450 San Nicolás de los Garza Nuevo León., México. Its telephone is +52 (81) 8114-0000 and its web page is *axtelcorp.mx.*

2.2) Business Overview

2.2.1) General

Axtel is a Mexican company that serves its clients in their evolution towards the digital transformation of their organizations and in the creation of communication networks, offering services through two business units: the Infrastructure Unit, a neutral operator under the commercial name Axtel Networks, provides fiber optic connectivity solutions to satisfy the requirements of international and national operators, data center and towers operators, internet giants, and content and cloud providers, as well as for the Services Unit itself. On the other hand, the Services Unit, under the commercial name Alestra, continues to act as a technological partner and promoter of the digitization of more than 18 thousand business clients, including corporate, medium and large companies, financial institutions and government entities, to which it provides integrated ICT solutions, integrating and managing Networks, Collaboration, Cybersecurity, Systems Integration, Cloud and Digital Transformation services under the highest quality standards.

Axtel has the second largest fiber network in Mexico, with an infrastructure of approximately 44,300 kilometers of fiber (including 12,600 kilometers of capacity), 23,000 kilometers of long-distance network and 21,300 kilometers of metropolitan rings. In addition, it has 5 international border crossings and more than 1,000 points of presence in the network, and concessions in the spectrum bands of 7, 10.5, 15, 23 and 38 GHz. Axtel provides its services through an extensive hybrid wireless and wired local access network designed to optimize capital investments. Current options for last-mile access options for the Company's customers include fiber optic links through its metropolitan rings and point-to-point wireless technologies.

Axtel's vision is to be the best alternative in the digital experience through innovation to create value, and its mission is to enable organizations increase their productivity through digitalization. The Company's strategic goal by operating under two business units, Services and Infrastructure, is to serve its key markets in a differentiated manner, providing the best experience and service, and maximize the utilization of its assets, their growth potential and the value for shareholders. The Services Unit, Alestra, seeks to be the main digital transformation enabler in Mexico; therefore, the following business strategies were defined: (i) increase the proportion of Digital Transformation and IT revenues favoring organic and inorganic growth of cybersecurity, cloud and collaboration solutions; (ii) have the intellectual capital required to achieve the objectives of the Services Unit; and (iii) provide the best customer experience. Moreover, the Infrastructure Unit, Axtel Networks, seeks to be the leading neutral fiber optic network operator in Mexico in a high-growth market; as such, the following strategies were defined: (iv) become a solid long-term profitability vehicle; (v) be the main connectivity provider for mobile networks and data centers; and (vi) be highly efficient and agile through the digitalization of processes and operations.

In 2020, Axtel's initiatives were focused in three priorities: the security and wellbeing of its employees; provide support to its clients in their critical needs; and the continuity of its operations and those of the organizations it has the privilege to serve. In such year, Axtel generated Ps. 12,356 million of income, and registered operating profit and EBITDA of Ps. 2,773million and Ps. 6,327 million, respectively; which include the Ps. 2,021 million benefit of the data center divestment. In 2020, 45% of EBITDA came from the Services Unit, and 55% came from the Infrastructure Unit.

2.2.2) Competitive Strengths

a) *Leading independent provider of mission-critical solutions supporting the Mexican enterprise market in the evolution towards the digital innovation of their organizations.*

Following the Merger between Alestra and Axtel in 2016, the Company became the only player in the Mexican ICT market with an emphasis on the enterprise and government segments. The fast-changing needs of customers for information, connectivity, cybersecurity, mobility and cloud services, among others, position Axtel as a provider of essential services for the operation of its customers, being the consistent quality, trust and technical support of high importance for customer satisfaction. With a high focus on business services, Axtel has positioned itself as a brand that has leading experience, infrastructure and services to strengthen the ICT industry and contribute to create a new generation of more innovative, efficient and competitive companies in Mexico.

Axtel is the leading provider of mission-critical enterprise solutions, including high-availability architectures and DRP (Disaster Recovery Plan) solutions. It has a portfolio of digital transformation services, with which it provides new technological trends such as internet of things and processes digitalization applied to clients' commercial and operative processes. Furthermore, it is the first multi-cloud service provider in Mexico, with strong alliances with Microsoft Azure and AWS, owning even a private cloud. It has a broad portfolio of collaboration tools and one of the most robust cybersecurity operations in the country, offering managed solutions that provide security from the perimeter to the applications.

The above backed by strong alliances with leading technology partners worldwide, and a service philosophy based on excellence. The Company has experience and recognition in the market and aspires to provide the highest standards of services required by the most relevant corporations and companies in the Mexican economy. The focus on the enterprise segment differentiates Axtel from other telecommunications companies in Mexico, and its experience in providing ICT value added services to this segment gives it a solid and competitive advantage.

b) Neutral operator with the second largest fiber network in Mexico.

Axtel’s infrastructure unit has an extensive, cutting edge network integrated by high-capacity fiber optic lines and wireless spectrum concessions. Its hybrid fixed local network structure (wired and wireless) allows it to penetrate new markets quickly and effectively, increasing the revenue base profitably. It has the capacity to provide coverage in 71 cities, through its extensive network, composed of approximately 44,300 km of fiber optics, including approximately 23,000 km of long-distance network and 21,300 km of metropolitan network. The metropolitan fiber network offers a unique proposal thanks to its wide coverage and capillarity, especially in very dense areas, such as Mexico City, Monterrey and Guadalajara.

c) Long-term contracts and high renewal rates translate into visibility and sustainability in cash flow.

A significant proportion of the Service Unit Alestra (approximately 93% of revenues in 2020) consists of contracts with recurring monthly revenue. Furthermore, given the nature of the services and the high quality of enterprise clients, Axtel has a loyal relationship with clients with stable recurring income. Losses due to bad debt have historically been very low, with a marginal rate of uncollectible accounts.

Additionally, it has approximately 17 thousand clients, 70% of them have been with the Company for more than six years. Likewise, eight out of 10 large corporations in Mexico are Axtel customers served under the Alestra brand.

d) Disciplined financial strategy committed to strengthening Axtel's capital structure.

Approximately 80% of Axtel's capital investments was growth or strategic Capex, as it represents investments in last-mile solutions, managed equipment, integrated connectivity solutions, capacity and fiber optic network deployment directly related to specific customer requirements. As a result, these investments generally carry lower risk, with relatively more predictable returns. This provides the Company with significant visibility regarding the cash flow of income derived from a proportion of capital investments and an adequate level of indebtedness.

Furthermore, the transactions of tower sale, mass market segment divestment and the three data centers, allowed Axtel to raise more than US $ 530 million at attractive valuation multiples. With these resources, Axtel's net leverage had reduced from more than 4.0 times in 2016 to less than 3.0 times, as of yearend 2020.

e) Unrivaled technical expertise combined with a disciplined investment management approach.

Members of the management team have an average of 24 years of experience in the industry, providing knowledge and continuity in the development and implementation of the business strategy. During its tenure, the management team has transformed the Company from a dedicated long-distance company to a sophisticated provider of IT and telecom solutions with a broad portfolio of value-added services, as well as a neutral infrastructure operator. Additionally, ALFA, a company that owns 52.8% of the capital, is a Mexican conglomerate that manages a diversified business portfolio, composed of the subsidiaries Alpek, Sigma, Nemak and Newpek, in addition to Axtel. ALFA has a presence in 19 countries in America and Asia; and has 101 production plants.

2.2.3) Business Strategy

The Company's strategic goal is to operate under two business units, Services and Infrastructure, which allows it to serve its key segments in a differentiated manner and maximize the use of its assets, their growth potential and value for its shareholders. The key elements to carry out the business strategy are the following:

Services Unit (Alestra): *Be the main digital transformation enabler in Mexico.*

(i) Increase the proportion of digital transformation revenues favoring organic and inorganic growth.

Axtel, through Alestra, is positioned to capitalize on the growing demand for digital transformation and managed services, as the needs of its enterprise and government customers continue to evolve towards more sophisticated converged solutions, which require superior technical capabilities, cutting-edge technology and reliability backed by Axtel's network. Axtel focuses its efforts on strengthening its skills in a certain number of services, such as digital transformation and value-added services:systems integration, managed services, cybersecurity, cloud services, managed applications and collaboration solutions, among others. These services are offered in an integrated way, along with traditional telecommunications services or infrastructure based such as dedicated links, VPNs and Ethernet, among others.

Axtel seeks to increase the proportion of digital transformation revenues within its service portfolio from 18% in 2020 to more than 30% in 2025. To achieve this, Axtel will focus on serving the enterprise segment with digital transformation solutions that make a remarkable difference for their businesses, whether in terms of productivity, efficiency, availability, as well as supporting their costs and expenses reduction strategies and / or generation of new income. In line with this strategy, Alestra has acquired companies focused on IT services; in November 2014 it acquired S&C Constructores de Sistemas, in May 2015 it acquired 51% of Estratel and in July 2016 the remaining 49% and in August 2013, it acquired GTel. The Company will continue to evaluate opportunities through acquisitions or partnerships to strengthen its portfolio of IT services.

(ii) Have the intellectual capital required to achieve the objectives of the services unit.

UniAlestra is Axtel's educational institution to develop competences that enable digital transformation in organizations. Some postgraduate programs (pending before the SEP) are: Master's in Enterprise Digital Innovation, Master's in Management of Customers' Digital Experience, Master's in Strategic Management of Cybersecurity and Master's in Strategic Management of Information Technologies.

Axtel estimates that in 2025, 50% of its workforce will be specialists or will have some certification, either from a technology partner or from UniAlestra, where half of these will be IT certifications and the rest in Telecommunications and methodologies.

(iii) Provide the best customer experience.

Axtel serves a sophisticated customer base with rigorous customer service requirements, which values quality,reliability, agility and incurs significant costs and risks in changing IT and telecommunications providers. As such, Axtel believes that its customer base provides a stable source of income through long-term business relationships and contracts.

Axtel seeks to position the services business unit Alestra within a range of no more than 10 points of the best NPS (Net Promoter Score) index in the B2B (business-to-business) telecommunications industry globally.

Infrastructure Unit: *Be the leading neutral fiber optic network operator in the country in a high-growth market.*

(iv) Become a long-term solid profitability vehicle.

Axtel serves approximately 60 wholesale customers, including leading global and national fixed operators, mobile operators, and data center providers in Mexico. Axtel has few solid competitors in the wholesale segment and others that are restricted by limited or geographically specialized networks.

Moreover, the average life of the contracts in this segment can reach up to 15 years, providing a solid relationship with clients and stability in cash flows.

(v) Be the main connectivity provider for mobile networks and data centers.

Axtel is the largest neutral infrastructure provider in the country and has the second largest fiber optic network in Mexico by a wide margin. Its metropolitan fiber network offers a unique proposal in the market due to its wide coverage and high capillarity, especially in dense areas (for example, Mexico City, Monterrey and Guadalajara). Its robust network has diverse and redundant routes that provide very high reliability, making it well positioned to address the high-growth opportunities in fiber-to-the-tower used by mobile networks and fiber-to-data centers. In addition, it has an experienced workforce, with more than 400 field engineers.

Additionally, Axtel will continue investing to expand its network to capture the growing demand for connectivity by these segments.

(vi) Be highly efficient and agile through digitalization of processes and operations.

Axtel seeks to automate more and more processes and operator-to-operator interactions; with agile systems, by simplifying and standardizing them. Also, it seeks to focus on high-margin products, such as fiber to the tower, fiber to the data center, and fiber access. Finally, it will focus on migrating the accesses currently provided by third parties to its own network. These efforts will allow Axtel to increase its EBITDA margin.

2.3) Business Activity

Axtel is a Mexican company that accompanies its clients in the evolution process towards digital transformation for their organizations; and in the creation of communication networks, providing services through its two business units: The Infrastructure Unit under the commercial name Axtel Networks and the Services Unit under the commercial name Alestra.

The challenges that Axtel faces today, in which the sanitary crisis caused by the COVID-19 outstands, as well as the changing needs of markets worldwide, accelerated the demand for technological solutions that allow organizations to adapt themselves to the new economic and social reality; all based in digital innovation and the new online collaboration models. During this period, Axtel maintained the continuity of its operations, adapting to the new circumstances without setbacks in every aspect of the company. In one hand, processes to provide urgent and timely attention to connectivity needs and higher services demand for its clients, were reinforced; on the other hand, it implemented the adequate measures to guarantee the health of its human capital.

The products and services offered by the Company are, among others:

Services Unit (alestra)		Infrastructure Unit (axnet AXTEL NETWORKS)
Customers: Enterprise and Government segment		**Customers:** Wholesale and, National and International Carriers, including Alestra.
TELECOMMUNICATIONS	***IT***	
STANDARD SERVICES *Voice* *Data and Internet* - *Private Lines* - *Dedicated Internet* - *Broadband Internet* **MANAGED NETWORKS** *VPN* *Ethernet* *Managed Services* - *MS Routers* - *Managed LAN* - *Managed WLAN* - *SDWAN* - *Structured Wiring* - *WiFi* **COLLABORATION** *Unified communications* *Integral Videoconference* *Global Conference* *Meeting room* *Contact Center* *Equipment sale*	**SYSTEM INTEGRATION** *System integration* *DRP business continuity* *IT equipment sale* **CLOUD SERVICES** *Infrastructure as a Service* *Applications as a Service* *Hybrid Cloud (Multi-cloud)* *Managed Applications* **CYBERSECURITY** *Managed IT security* *Managed Security* *Consulting* **HOSTING** *Colocation* **DIGITAL TRANSFORMATION** *Cloud Consulting* *Internet of Things* *Processes Digitalization* **MOBILITY** *MVNe* *Enterprise mobile services*	**CONNECTIVITY** *Last-mile access* *Long-distance Transport ("Long-Haul")* *IP Transit / Dedicated Internet* *Fiber to the tower* *Fiber to the data center* *Colocation* *Spectrum*

Infrastructure Unit (Axtel Networks)

Axtel Networks, the Infrastructure Unit, supports mobile and fixed Carriers, national and international; data center operators, internet giants, as well as cloud and content providers; to grow their network coverage and capacity to satisfy the needs of their final clients, providing them with a wide range of fiber optic and spectrum based services, capitalizing opportunities related to the increasing data demand.

It is the largest neutral infrastructure operator in Mexico, hosting 44,300 km of fiber optics, including 23,000 km of transport or long-distance network and 21,300 km of metropolitan rings, including 12,600 km of capacity agreements (IRU).

It also has spectrum in the 7, 10.5, 15, 23 and 38 GHz bands used for last-mile wireless connectivity and metropolitan coverage for the enterprise segment, and more than 1,000 sites nationwide for fiber optics and digital radio coverage.

During 2020, Axtel Networks consolidated the Ethernet access coverage, reaching 71 cities by the incorporation of

Tepic to its network; and that of the metropolitan network by connecting via fiber optics nearly 75% of its new customers locations. Even more, it increased its coverage reaching 627 industrial parks; deployed fiber optics in 7 tourist and enterprise corridors, and likewise in 418 A/A+ office buildings of more than 5,000m^2 of rental area.

Supported by its coverage, quality and attention, Axtel Networks remained as the operator with higher share in access services provided to larger international carriers, who trusted Axtel Networks to integrate their networks and provide services to its global clients. On the other hand, it consolidated itself as the key supplier of mobile operators in fiber to the tower solutions. During the year, it deployed infrastructure for cellular sites in 13 cities through 1,600 kilometers of fiber optics.

It strengthened its solutions portfolio with high capacity services such as 100 Gbps Wavelengths through the DWDM network and dark fiber optics; capitalizing the network's coverage, architecture and reliability at its maximum, which allows it to consolidate its position as the most relevant and higher quality neutral infrastructure operator.

Some of the solutions developed to meet the needs of the wholesale segment served by the infrastructure unit are described below:

Connectivity:

Last-mile access

Connectivity solutions used by operators to interconnect the locations of their end customers. Fiber optic and digital radio technologies are used to provide links.

Long Distance Transport "Long-Haul"

Links used by operators to interconnect their network nodes located in different cities. The services are offered in different capacities according to the specific needs of the operator.

IP Transit / Dedicated Internet

IP transit refers to service offered to operators and data centers to obtain access to the international internet cloud, which is generally offered in high capacities. Dedicated Internet comprises the internet service used by operators to offer internet to specific locations of their end customers.

Fiber to the Tower

Fiber optic connectivity solutions used by mobile operators to interconnect their mobile sites to their main network, generally requiring high capacity to support data demand.

Fiber to the Data Centers

Fiber optic connectivity solutions used by data centers to interconnect their locations either in Mexico or abroad, generally requiring high capacity to support traffic between locations.

Colocation

Physical space provided within Axtel facilities where operators can install their owned equipment. The service includes the physical space, electricity, cross-connections and specialized technical support, which can be provided in Axtel's network points of presence or Data Centers.

Spectrum

Includes the rental service for spectrum channels, which will generally be used by operators to establish links through digital radio; offered in the 7, 10.5, 15, 23 and 38 Ghz bands.

Services Unit (Alestra)

Alestra, the Services Unit, seeks to become the main enabler of digital transformation in México; offering a wide Information and Communication Technology advanced solutions portfolio (ICT) according to its enterprise and government clients specific needs; through a robust, reliable and secure service offering, operating with the highest services standards.

Worldwide, technology has demonstrated to be essential in the evolution of markets and society. Proof of this, are the challenges that has brought upon the emergence and spread of the COVID-19, modifying the way in which people and organizations interact; and increasing the collaboration solutions, cloud, cybersecurity and network access demand, among others.

Alestra has been a strategic partner for its clients during the pandemic; providing a service portfolio to support the enterprises in the country to keep up their operation, during the contingency as well as the so called "new normal". Services were implemented to aid their employees to work in a remote office format "home office", safely; services to support hybrid work models; new products based in cameras and internet of things technologies to measure corporal temperature, social distance and people monitoring to guarantee health in workplaces.

In 2020, the Digital Transformation unit was created with the objective to aid enterprises to adopt new technological trends and accelerate their digitalization, incorporating services and capacities for Processes Digitalization, Internet of Things and Cloud Consulting. Pointing out some of the real-life applications, is worth mentioning the monitoring and tracking of objects in facilities; Robots Processes Automation (RPA), and clients support to adopt cloud services.

Likewise, new products were developed in the group of services that have a higher contribution to digital transformation of clients, such as Collaboration, Cloud and Cybersecurity. Services of Webex calling, public cloud back up, new Multi-cloud support plans, cloud Cybersecurity, vulnerability management, among others, were released.

On the other hand, it offers colocation solutions through world-class data centers designed under the highest standards, which are located in some of Mexico's main cities: Monterrey, Querétaro, Guadalajara and Mexico City. Added to this offer is the recent partnership with Equinix, the world leader in data centers, offering the Mexican enterprise segment colocation services in more than 200 data centers in the world.

Nowadays, Axtel has the widest global network of technological partners, with the highest levels of partnerships and certifications. To list a few, with Fortinet it has the maximum level *MSCP Platinum*, being also its main commercial partner in Latin America. With Cisco, HPE and Microsoft Alestra is *Gold Partner*, and *Platinum* with Avaya. Also, it has a robust, reliable and secure ICT solutions offer that support the different sectors in their digital transformation, increasing the productivity and efficiency of their daily processes.

The wide family of ICT services allows Alestra to offer products and services to two segments of clients with specific needs: enterprise and government.

Enterprise segment:

Alestra is a technology partner that offers a robust ICT portfolio to the Mexican enterprise market, integrated by large corporations, medium and big companies, and financial institutions to streamline their processes, integrating and managing services from the Collaboration, Cybersecurity, Systems Integration, Managed Networks, Cloud and Digital Transformation solutions.

In the last three years, revenues coming from the enterprise segment have increased mainly from managed networks and IT solutions.

Government segment:

Alestra provides ICT services to government entities, in the federal, state and municipal levels, offering solutions to improve their communication and citizens interrelationship experience

The Government segment focused in five strategic pillars: collectibles reinforcement, accounts and revenue retention, new projects selective acquisition, ISO 37001 certification, and the satisfaction index measurement (NPS) in the federal and state sectors.

In the Federal sector, Connectivity and System Integration projects kept on going, along with solutions that integrate data centers, processing and storage in a safe cyber-environment.

Meanwhile, in the state and municipal government segment, a portfolio of value-added solutions was developed, including:

- One-stop shop (*Ventanilla única*) to citizens and civil servants: System to consolidate all procedures in a single portal, seeking to improve citizens' experience and make internal processes and collection more efficient.
- Collaboration tools suited for technology institutes and autonomous universities students, so that they can continue studying in a virtual environment.
- System based analytics for decision making in public affairs.
- Internet of things solutions (IoT) to automate the public transport passing frequency, and other data such as the number of passengers transported, the covered kilometers and video surveillance. Cloud information processing and storage, enabling the agile execution of payment processes.
- Intelligent Public Sites, Safe Institutions and Solutions to reenter the 'new normal'.

This year Axtel participated in the Quality Global Model Client certification (MGCIC) given by the Tele-services Mexican Institute (IMT), reaching a high maturity level with 591 points, positioning itself as a reliable company in the experience provided to its government clients.

The following are solutions developed for both enterprise and government segments by Alestra:

Telecommunications:

Voice/Telephony:

These solutions include services such as local calls, international long distance, smart lines (which allows customers, among others, to assign authorization and call filtering codes), 800 services with national or international coverage and cloud switch services. Additional services include digital phone lines and telephone lines over IP protocol.

Data and Internet

- Data: direct access or last mile access and digital private lines with national or international reach.
- Internet: Axtel has a broad portfolio of dedicated internet solutions, from 1 Mbps links to high capacity connections of up to 10 Gbps. In addition, it offers protection for the internet link against cyber threats through mechanisms called Clean Pipes. It also offers internet on demand, which offers high capacity links with rates that vary depending on the requested use.

Managed Networks

- *Networks*: Axtel has a wide portfolio of network connectivity solutions that allow customers to connect their offices point-to-point or point-multipoint either nationally or internationally. In the family of network connectivity services are VPN and Ethernet services. All these options allow the secure transmission of voice, data or video information simultaneously.

- *Managed Services*: Axtel has a portfolio of managed networks services, such as Managed Reuters, LAN switches and managed WLAN. With these solutions, Axtel's customers receive the following benefits through a monthly fee: design, implementation, support, maintenance, operation and management of equipment.

Collaboration

With these types of products Axtel seeks the integration of various communication tools that allow people to interact and collaborate more effectively and efficiently, facilitating the management and integration of various channels of voice, data, video, networks, systems and business applications. Some of the services that make up the collaboration solution are:

- Videoconference services that facilitate collaboration between geographically distant rooms and/or people, providing flexibility and connectivity coverage.
- Unified communication solutions that allow the use of video, instant messaging, voice, mobility and applications to collaborate in work teams; as well as applications for call centers, which are accessed through the cloud, so that the customer does not have to invest in the purchase of equipment.
- Conference solutions which allow customers to have voice communication between a group of people which can share content and interact with the information safely.
- Cloud solutions that allow collaboration through new workspaces that help people work from anywhere and on any device.

IT:

System Integration

Delivery of customized solutions for special projects that integrate infrastructure, applications, connectivity, security and management of several different technologies and manufacturers in a holistic model where Axtel becomes the single point of contact for its customers. This service includes mission critical solutions such as DRP (Disaster Recovery Plan), high availability platforms, private and hybrid clouds and migration of environments.

Cloud Solutions

Axtel offers the latest technology through cloud access, which includes infrastructure, software, applications, technical support and solutions, which offer unlimited capacity, universal accessibility, flexibility and savings by not having to investing in equipment. This supported by the security and availability of data centers, whose mission is to ensure that information and applications are available anywhere and under any circumstances. These solutions include, among others:

- Services that offer virtual or physical servers in a rental scheme through a public cloud.
- Services of containers, serverless and new generation applications development environments.
- Services that offer the customer the option to acquire on-demand computing resources, flexible server configurations, RAM and information storage, which can be provisioned by the client via the web.
- Access to ERP (Enterprise Resource Planning) "All in One" version of SAP and S4 HANA, across a cloud service scheme that allows the customer to obtain savings by not having to purchase said system.
- Comprehensive infrastructure management services that include the design, implementation and operation of complex computing solutions in high availability environments prepared to handle natural disasters ("DRP").

- Corporate e-mail, a platform that offer customers personalized and accessible e-mail addresses from fixed and mobile devices.
- Open platform for streaming (without interruption) digital audio and video for mass distribution of media (audio, video and images) through the web.
- Generation of server backups in a fast way that allows the assurance of information through a platform available under a “as a service” scheme.
- Storage as a service for hosting and the execution of applications under an “on demand” scheme.
- Cloud Backup for secure, periodic and automated backups.
- Virtual desktops to remotely access your desktop and applications from any device.
- Public Cloud Services (Iaas, PaaS, SaaS) based on the largest global public clouds in a managed service format.
- Consulting and cloud environment migration services.
- Hybrid cloud solutions combining functions from public clouds outside of Mexico, including the building of dedicated links to guarantee the security and efficiency of the solutions.
- Help Desk Service, which is a single point of contact for end users that manages incidents, requirements and problems related to IT services.
- Application Management: solutions that provide specialized management of IT services accompanied by a complete operational model of monitoring and management based on the best practices in the industry. In this solution, clients delegate the operation of their critical applications in a way that they are provided with an outsourcing service for operation, monitoring, incident management, problems and changes of business applications such as an ERP, CRM, databases, among others.

Hosting

Dedicated, collocation and virtual hosting services which allow customers to host their servers in a secure space, with energy redundancies and links to the Internet and VPN networks, as well as capabilities for rapid growth, system monitoring and management.

Digital Innovation

Digital Transformation Services to support companies to adopt new technological trends to impact their business processes.

- Processes Digitalization: Are robot applications, including software (RPA), that offer to automate repetitive tasks of processes.
- Site Supervision and Management (IoT): Is a service that offers real-time monitoring of all objects or people located at a site, warehouse, factory, load truck, among others. The platform offers real-time location as well as alarms and analytical tools.
- Cloud Consulting: Is a service that offers to promote the use of public clouds by taking advantage of new trends in application creation, migration and adoption of the cloud, application coding tools, among others.

Cybersecurity

The cybersecurity portfolio provides solutions that protect computer equipment, networks and systems from threats and attacks by providing, operating, managing and monitoring the entire information security infrastructure the client requires. Some associated services include Vulnerability Analysis that offers a diagnosis of the level of exposure the critical infrastructure of a network has in the event of an attack that would affect its operation. Other services include: Security Consulting, Managed Intrusion Detection and Prevention Services, Managed Web Filtering and Firewall Services, designed for businesses requiring controlled web access, comprehensive multi-layer protection and all-in-one security that controls, detects, mitigates, monitors and provides secure perimeter access.

The service is offered through the Security Operation Center (SOC), where the security of services is monitored 7x24, as well as threats worldwide so that preventive actions can be taken to safeguard customers' information.

2.4) Advertising and Sales

To promote products and services in the enterprise and government segments, the Company through the Alestra brand, uses a variety of communication and commercial tools, among which are the launch events for new products, publications in specialized magazines and social media, experience centers or "Centro Sperto", virtual and physical visits to experience centers of our partners, participation in forums, online communication and direct promotion with the support of presentations and tools.

For the wholesale and operators' market, the Company through the Axtel Networks brand, participates in the main national and international industry events in order to promote the portfolio of solutions and establish closer relationships with customers and prospects.

2.4.1) Sales Channels and Strategies

Advertising campaigns are complemented by sales objectives aimed at specific market segments using various sales channels.

Axtel's enterprise segment model is based on sales teams that include a Sales Consultant, a Strategic Services Commercial Specialist, a Customer Service Representative, a Solution Design Engineer and a Service Delivery Representative. Accounts are grouped into categories depending on the revenues and/or business potential of the customer. Resources are allocated according to the block prioritization scheme described in the below diagram. Sales Consultants can be either Axtel employees or ICT Indirect Channel Integrator representatives.

Category	Segment	Channel
Premier Experience	Medium-sized Enterprise Customers	Sales Consultants Indirect Channels
Premier Plus Experience	Large Enterprise Customers with Managed Services	Sales Consultants
Select Experience	Primarily Corporates with Managed Services	
Black Experience	TOP Customers from the Financial, Corporate and Wholesale Segments	

"Centro Sperto" is essential part in Alestra's commercial strategy, as it seeks to shorten the sales cycle through live demonstrations of the solutions offered by the Company.

At the beginning of 2020, a new "Centro Sperto" was opened in Cancún to bring closer the Digital Innovation portfolio to the south of the country. Upon the arrival of the sanitary contingency, clients experience was transformed in two modalities: physical, operating under strict health and safety measures in facilities; and virtual, with the Virtual Sperto creation, providing the same experience to the client with a tailormade agenda including *tech days*, *webminars* and virtual demonstrations. Along the year, more than 500 talks and demonstrations were hosted, with which more than 1,000 people of more than 400 companies nationwide were reached.

Axtel concluded the eleventh edition of the technological fair **Alestra Fest**. In the first part of the tour, four of the six cities scheduled were visited, in which more than 4,000 people attended. As a result of the declaration of the pandemic by COVID-19, the tour's closing was conducted in a entire virtual format: **Alestra eFest** 2020, event that gathered live conferences, innovation capsules, a technology sessions channel on demand; and concluded with an event in a virtual exhibitions center in which clients interacted through avatars. **Alestra eFest** captured more than 1,300 users in conferences, more than 19,000 visits for the channels on demand and more than 1,100 visitors in the virtual exhibition. Supported by 14 technological partners, the portfolio of more than 50 Alestra's solutions was presented in order to face the 'new normal' challenges and the possibility of creating innovative working ecosystems triggered by the latter, as well as the cybersecurity and cloud digital mega trends that attracted a lot of interest among the guests.

The level of success obtained by this emblematic digital innovation tour is proof that organizations can adapt to changes and maintain their productivity through technology.

2.4.2) Customer Service

A key element of Axtel's competitive strategy is to provide constant, effective and reliable customer service. In order to achieve this goal, Axtel has established a 24-hour customer service center staffed by qualified personnel. It has been implemented a comprehensive training, testing and certification program for all personnel who interact directly with customers.

Axtel provides after-sales services nationwide through the following operations:

- Customer Service. Post-sales customer support services, ranging from general information to additions and changes resulting from account clarifications and technical support.
- Operator Service 24 hours a day. Includes wake-up calls, time of day, emergency calls and assistance with local and long-distance calls.
- Advanced Services Center. For customers who have advanced services that require high availability, there is a monitoring center that proactively seeks to maintain correct operation of services, correcting operating incidents proactively, as well as the definition of improvement plans for services and private networks of clients; improving year on year the operating and performance indicators of their services.
- Repair Calls. The National Repair Center is the point of contact for customers that handles reports of breakdowns or failures and provides online technical support and analysis services.
- Local Tests. Analyzes and tests all reports that are not resolved by Repair Calls. This area is accountable for routing these reports to the repair area.

Field Service areas work in a coordinated way with the network operating center in order to monitor, diagnose and execute services restoration tests.

The *Holistic Operation Center* is the center that brings together best practices, processes, tools and experts from Axtel's Network Operation Center (NOC), Security Operation Center (SOC), Managed Service Operation Center (MS NOC), IT Service Management Center (CASTI), Help Desk and Systems Support (HD) and Business Service Center (CAE).

For the Services Unit, in 2020 **Alestra One Touch** was released; an online portal that allows to manage the clients interactions with Alestra's value chain in a digital way, enabling it to process, in real time, in any moment and in any place: account balance information, invoicing, payment complements, active services, orders in progress and opening, as well as incidents monitoring, among others.

During 2020 various projects were implemented, worth mentioning two of reconfiguration that allowed to improve the client service. One of those projects started at the beginning of 2020, when the need to improve and to update the operating knowledge of Axtel's engineers was identified, in the first and second level tables and specialized; as such, using the SCRUM working frame and the own personnel expertise, more than 800 collaborators were trained in key technologies for Alestra's services. The training programs were offered physically at the beginning of the year; but online and via streaming as the pandemic started, the latter allowed to encourage the self-training, accounting for more than 15,000 hours of training.

Another relevant Project is the cultural transformation of our employees towards agile practices, which allows higher collaboration, communication and empowerment for those teams in the first line with clients, and in which timing for decision making become critical in the operations of the clients.

During the year, the visiting process for the clients was reinvented due to the pandemic of COVID-19, so that the client kept perceiving Axtel close and vigilant of their businesses. In short time, the Company migrated towards a new virtual visiting scheme, allowing it to maintain the same closeness, and even surpass the trust that their clients confer to the services provided. Thanks to the multidisciplinary teams that participated in this initiative, the Company reached historic levels of customer service reflected through the *Net Promoter Score* (NPS); 54 points for the corporate market and 41 points for the medium enterprise market.

On the other hand, to get to know their client's expectations and improve the experience of the provided services, Axtel continued applying satisfaction surveys through the NPS. For the first time, satisfaction indicators for the government segment clients were measured, obtaining good results; 78 points for the federal government and 88 points for the state government.

2.4.3) Billing and Collection

The Company believes its billing and collection processes are an important aspect of its competitive advantage. Axtel's billing team validates the usage records, rents and non-recurring charges are ready to be invoiced prior to the billing process. The customer receives his Electronic Invoice (CFDI) via e-mail, usually on the same day of its billing period. Also, if requested, the customer receives a payment reminder 7 days before the payment due date if no previous payment has been submitted yet.

To ensure the quality of the bills and as a last validation filter, a statistical process of Quality Control Post-Billing and Pre-delivery is performed on a representative sample, verifying the following: billing amount, tax information, complete shipping information, proper allocation of messages or advertising, valid emails and changes in different sections of the bill due to new offers and/or products.

An ongoing revenue assurance process, which consists of reviewing the billing stream, payments and adjustments, as well as fraud detection and control, has become part of Axtel's regular billing operation. This process has contributed to minimizing fraudulent activity and risks.

Axtel has proactive billing care processes, which ensures that customers receive an accurate invoice on time. Every enterprise customer has an assigned Customer Service Executive who is responsible for providing a high-quality personalized service. The Customer Service Executive is responsible for reviewing billing requirements and ensuring that the customer receives the correct invoice in a timely manner, and to meet any other need the customer requires (for example, the elaboration of a customized report and billing records).

For high-end enterprise customers, such as multinational, financial and government entities as well as large corporates, our Customer Service Executives carry out proactive invoice validations and have regular face-to-face meetings with their customers to efficiently address any requests or provide clarifications regarding billing and failure management. The collection process for these customers is also personalized; these collection cases are validated internally and then conciliated personally with the customer. The Company has policies in place to avoid blocking services to such customers before all negotiation efforts have been exhausted.

The most common payment method for enterprise customers is bank transfers referenced to the invoice, which speeds up the collection and identification of payments, as well as bank deposits and eventual payments with business credit cards. These channels provide easy and fast options for customers to select the most suitable and convenient alternative for a prompt payment.

Axtel has implemented preventive collection procedures to encourage customers to pay on time, such as payment reminders and payment delay notifications.
At the end of the payment period, Axtel executes corrective collection procedures, including partial or total suspension of services. In case of exhausting the possibilities of recovery in the internal collection, accounts are turned over to external collection agencies and/or assigned to the Legal Department, in order to exhaust all possible resources to negotiate and collect payment of the overdue invoice. Always with the goal of retaining the customers' services active, throughout the collection process Axtel provides customers with guidance and proposes alternative payment solutions and plans, which may include reconnecting a customers' service under a prepayment scheme and/or granting the customer an accessible term adhered to a repayment schedule.

2.5) Patents, Licenses, Trademarks, other Contracts and Certifications

2.5.1) Company's Concessions

Axtel, Alestra Innovación Digital and Alestra Servicios Móviles (hereinafter collectively known as "Axtel"), hold certain concession titles granted by the Federal Government; single concession titles for commercial use have a duration of 30 years and spectrum concessions have a duration of 20 years. These spectrum concession titles were recently granted extensions for their duration, under which they allow the Company to provide the following telecommunications services nationwide:

a. basic local and international telephony services
b. the sale or lease of network capacity for the generation, transmission or reception of data, signs, writings, images, voice, sounds and other information of any nature;
c. the purchase and lease of network capacity from other carriers, including the lease of digital circuits;
d. operator services;
e. data, video, audio and videoconference services;
f. mobile telephony service (as Full Virtual Mobile Operator)
g. message delivery service (SMS);
h. point to point and point to multipoint links; and
i. restricted television, continuous music services or digital audio services.

Axtel, Alestra Innovación Digital and Alestra Servicios Móviles have a Single Concession for commercial use, which has the following advantages: confers the right to provide in a convergent manner all kinds of public telecommunications and/or broadcasting services, which simplifies administrative procedures for compliance of obligations and generates economic savings, for example: payment of rights, payment of bonds, among others. Prior to commencing operations of any public telecommunication service that is technically feasible, operators must request the Federal Institute of Telecommunications ("IFT") the inscription in the Public Registry of Concessions; the concession is valid for 30 years and may be extended up to equal terms.

On May 1, 2017, the merger between Axtel and Alestra S. de R.L. de C.V. ("Alestra") was carried out, therefore, the concessions of the public telecommunications network that Alestra had were consolidated in the Single Concession of Axtel and the frequency band concessions that Alestra had were transferred to Axtel.

On June 22, 2019, Avantel, S. de R.L. de C.V. ("Avantel Concesionaria") merged by incorporation in Axtel, S.A.B. de C.V. and consequently, the IFT was notified of the transfer of rights of the 13 frequency band concessions that Avantel Concesionaria had in favor of Axtel and the 3 public telecommunications network concessions were renounced, since Axtel has the Single Concession for commercial use.

In 2018, Axtel, in its capacity as a Full Virtual Mobile Operator, promoted before the IFT procedures of disagreement of interconnection with mobile and fixed operators, from which they derived agreements and signatures of Framework Agreements for Interconnection and issuance of Resolutions. Under these, Axtel has the right to charge mobile interconnection rates applicable since 2019.

In 2020, the IFT resolved to deliver in favor of Axtel the authorizations of extension for the 20-year validity of the concessions, to use, take advantage of and exploit frequency bands for specific use in 7, 10, 15, 23 and 38 GHz frequencies. It also delivered in favor of Alestra Innovación Digital, S. de R.L. de C.V. a Single Concession for Commercial Use, which was assigned in favor of Alestra Servicios Móviles, and 3 concessions to use, take advantage and exploit frequency bands for specific use in the 7 and 10 GHz frequencies, which were assigned in favor of Axtel; and on February 3, 2021, the IFT assigned a Single Concession for Commercial Use in favor of Alestra Innovación Digital. However, the IFT took as the starting date the previous telecommunications public network concession from November 8, 2000.

The following is a summary of the concessions:

AXTEL						
TYPE OF CONCESSION	**COVERAGE**	**AUTHORIZED SERVICES**	**BANDWIDTH**	**TERM (years)**	**START**	**EXPIRATION**
Single Concession for commercial use	National	Any service that is technically feasible	N/A	30	Jan 29, 2016	Jan 29, 2046
Frequency bands for commercial use	National	Link capacity	7 GHz	20	Aug 2, 2020	Aug 2, 2040
Frequency bands for commercial use	Region 1-9	Link capacity	10 GHz	20	Apr 2, 2018 Sept 29, 2018	Apr 2, 2038 Sept 29, 2038
Frequency bands for commercial use	Region 1-9	Fixed Wireless Access	3.4 GHz	20	Oct 8, 2018	Oct 8, 2038
Frequency bands for commercial use	National	Link capacity	15 GHz	20	June 5, 2018	June 5, 2038
Frequency bands for commercial use	National	Link capacity	23 GHz	20	June 5, 2018	June 5, 2038
Frequency bands for commercial use	Region 1,3,4,6 & 9	Link capacity	38 GHz	20	Jan 26, 2020	Jan 26, 2020
Frequency bands for commercial use	National	Link capacity	7 GHz	20	Aug 2, 2020	Aug 2, 2040
Frequency bands for commercial use	Region 1 & 5	Link capacity	10 GHz	20	Apr 2, 2018	Apr 2, 2038

ALESTRA INNOVACIÓN DIGITAL, S. DE R.L. DE C.V. (ASSIGNED SINGLE CONCESSION FOR COMMERCIAL USE IN FAVOR OF ALESTRA SERVICIOS MÓVILES)			
Concession Titles	**Services**	**Coverage**	**Term**
Single Concession for Commercial Use	Provision of any telecommunications and / or broadcasting service that is technically feasible.	National	**Duration:** 30 years **Bestowal Date:** Apr-02-2018 **Expiration Date:** Apr-02-2048

ALESTRA INNOVACIÓN DIGITAL, S. DE R.L. DE C.V. (POSSESED A TELECOMMUNICATIONS PUBLIC NETWORK CONCESSION THAT CONVERTED INTO SINGLE CONCESSION FOR COMMERCIAL USE)			
Concession Titles	**Services**	**Coverage**	**Term**
Single Concession for Commercial Use	Provision of any telecommunications and / or broadcasting service that is technically feasible.	National	**Duration:** 30 years **Bestowal Date:** Nov-08-2000 **Expiration Date:** Nov-08-2030

2.5.2) Main Trademarks

Axtel owns several registered trademarks that are used to market the products and services offered by the Company. Among others, Axtel has the following most important registered trademarks:

TRADEMARK	REGISTRY NUMBER	EXPIRATION	OWNER
AXTEL (blue design)	1,662,025 1,668,824 1,662,026	April 07, 2026	Axtel, S.A.B. de C.V.
Alestra	511,656	November 01, 2025	Axtel, S.A.B. de C.V.
Axtel	584,421	July 13, 2028	Axtel, S.A.B. de C.V.
AXTEL NETWORKS	2,171,990 2,171,991	July 31, 2030	Axtel, S.A.B. de C.V.
AXNET AXTEL NETWORKS	2,171,988 2,171,989	July 31, 2030	Axtel, S.A.B. de C.V.

2.5.3) Interconnection

The Company has established interconnection agreements necessary for the exchange of different types of traffic, which are:

a. Fix-to-fix local traffic;
b. Fix-to-mobile local traffic;
c. Mobile-to-fix local traffic;
d. Mobile-to-mobile local traffic;
e. Long distance traffic which includes different models such as the 800 collect calls.

Applicable rates.

Rates and conditions for interconnection, according to current regulations, are determined as follows:

- Agreement between the parties;
- Determined by IFT resulting from a Disagreement process; or,

- Through the application of Non-Discriminatory Treatment, foreseen in the *Ley Federal de Telecomunicaciones y Radiodifusión* (LFTR).

For 2021, the IFT has established the following interconnection rates:

a. For the Preponderant Economic Agent (AEP):
    - For termination in the AEP's mobile network for the local service for users under the "caller pays" scheme: $0.018489 MXP
    - For termination in fixed network: $0.002842 MXP.
    - For termination of short messages (SMS) in mobile users $0.009889 MXP per message.
    - For mobile transit service: $0.002184 MXP.
    - For fixed origination services: $0.003071 MXP.
    - For fixed transit services: $0.003554 MXP.

b. For non-preponderant operators:
    - For traffic termination:
        i. In fixed networks: $0.003491 MXP.
        ii. In mobile networks: $0.073714MXP
    - For Origination the IFT does not resolve this rate for non-preponderant operators
    - For Transit the IFT does not resolve this rate for non-preponderant operators
    - For termination of short messages (SMS):
        i. In fixed networks: $0.011764 MXP.
        ii. In mobile networks: $0.017242 MXP.

Most interconnection agreements that have been signed are effective and are updated annually based on the resolutions passed by the IFT, or through direct negotiations between operators or in the absence thereof, the clauses of continuous application provided for in the Framework for Interconnection Agreements are applied.

Preponderance

Derived from the telecommunications reform on June 11, 2013 and since 2015, the preponderant operators (Telmex, Telnor and Telcel) are obliged to make available to the other operators the following:

- Sharing fix and mobile passive infrastructure (e.g. poles, ducts, rights of way and towers);
- Leasing of dedicated links;
- Resale and unbundling of all the services provided through Telmex's local network;
- Resale of mobile services, voice, data and SMS, as a Mobile Virtual Network Operator (MVNO); and
- The agreements of national and international visiting users (roaming) that Telcel has signed with other operators.

As of the end of 2020, the Company has signed the reference offers with Telcel to provide mobile telephony services under the figure of Full Virtual Mobile Operator ("OMVC"), and also signed an agreement to use the ALTAN network. On the other hand, it signed reference offers with Telmex to:

- Sharing passive infrastructure of Telmex's network;
- The unbundling of the local loop of Telmex's network; and
- Leasing dedicated links from Telmex.

The prices and conditions for these services are the ones established by the IFT for Telmex and Telcel, respectively, but may be modified annually by filing disagreements under the Preponderant Guidelines and the LFTR, using the cost methodology such as "avoided costs" or "long-term incremental costs", depending on the type of service.

2.5.4) Technological Certifications

As of the date of this Report, the Company has the following technological certifications:

Management systems:

- ISO 9001:2015
- ISO 20000-1:2011
- ISO 14001:2015
- ISO 27001:2013
- ISO 22301:2012
- ISO 37001:2016

Best practices:

- ICREA – Nivel 3,4 y 5
- ITIL
- CEEDA
- SSAE-18 (Statement on Standards for Attestation Engagements No.18)
- PCI DSS (Payment Card Industry, Data Security Standard)
- FIRST (Forum of Incident Response and Security Teams)
- CMMI – SVC/3
- MGCIC

Partners:

- Aspect, Channel Sales Agreement
- Audio Codes Platinum VAR
- Avaya Diamond Partner
- AWS Select Consulting Partner
- Checkpoint, Three Stars Partner
- CISCO, Gold Certified Partner
  - CISCO, Advanced Collaboration Architecture Specialization
  - CISCO, Advanced Enterprise Networks Architecture Specialization
  - CISCO, Advanced Security Architecture Specialization
  - CISCO, Advanced Data Center Architecture Specialization
  - CISCO, Cloud Services Reseller
  - CISCO, Cloud and Managed Services Master
- Dell Technologies, Gold solution provider
- Fortinet, MSSP Expert Partner
- HPE, Solution Provider Gold Partner
- Huawei Enterprise Partner VAP
- Huawei, Four Stars
- Partner IBM, Service Provider
- Microsoft, Gold Partner
- Microsoft, Hosting Partner
- Microsoft, Gold Cloud Productivity
- Oracle, OPN Member, License & Hardware / Cloud Solution Provider
- Palo Alto Networks, MSSP Platinum Innovator Partner
- Poly, Silver Partner
- SAP MCaaS Partner
- Symantec, Platinum Partner

In 2020, 178 employees obtained 233 certifications in different technologies and knowledge from institutions such as Amazon Web Services, AZURE, Avaya, Check Point, CISCO, EC-Council, Fortinet, ISACA, ISO, ITIL, Microsoft, PMI, Oracle, SCRUM, Six Sigma and Symantec.

2.6) Research and Development

To provide solutions that meet the real needs of its customers and the market, as well as the challenges demanded by the new normal, at Axtel innovation remained as a priority during 2020.

As essential part of the business, this way of working is embodied in Axtel's Innovation Model, whose objective is to permeate the culture of innovation throughout the whole company to generate value not only for its customers, but also for its collaborators.

2.6.1) Digital Innovation

To continue its digital transformation, Axtel started the implementation of the initiatives defined in the Axtel Digital Innovation strategy, achieving benefits such as:

- Increase the effectiveness of the sales force.
- Streamline the implementation of services for your customers.
- Automate orders.
- Decrease manual capture through software robots.
- Increase security in transactions.
- Offer greater self-service to collaborators through chatbots.

Additionally, it fosters an internal culture of innovation through the *Innsight* Platform, in which its collaborators propose ideas for innovation and continuous improvement that are carried through a process of validation and tracing, translating the impact of each project into economic benefits for the company.

Innsight is the digital space where collaborators are encouraged to propose innovation and continuous improvement ideas, which are evaluated by the same collaborators in order to be assigned resources that allow their implementation or transformation into services for clients.

During 2020, the innovation culture and continuous improvement program focused on promoting digital transformation projects, incorporating the use of collaborative innovation digital tools that allowed the development of initiatives from home, with excellent results. Nearly half of the collaborators participated with a total of 363 ideas, from which 43 projects were implemented, translating into benefits close to $ 160 million pesos in operating expenses and Capex. A 48% of these projects corresponded to digital innovation initiatives.

Along this same thought, it was held for the first time a virtual hackathon, in which developers participated with application proposals to promote Axtel's digitization projects.

Innovation Hub: It is the physical space dedicated to creativity, collaboration and generation of ideas, as well as their materialization in prototypes and real solutions. It is located within the Campus of Innovation and Technology (CIT) and is formed by two centers: Business Innovation and Technology Innovation.

During 2020, new technological trends were explored through the development of concept tests with business clients, in the fields of the internet of things, artificial intelligence, image recognition and anomalies detection.

NAVE Accelerator: It is the open innovation program through which Axtel interacts with scaleups (companies with more than two years of operation, legally constituted, that could have received an investment previously and whose business model is defined and scalable) oriented to the B2B segment and aligned with the technological megatrends identified by Axtel, to generate commercial alliances with proposals that allow the increase of Axtel's customers productivity through digitization.

In 2020, four products were launched with entrepreneurs from NAVE's fourth generation, strengthening Axtel's digital transformation strategy. These products include Asset Tracking and freight Anti-theft in the Internet of Things category; Recruitment and Mass Selection Automation in the category of Processes Digitization; Sale through WhatsApp in Collaboration, and Hand Palm Authentication device in Biometrics.

Likewise, more than 1,100 companies from around the world were analyzed, selecting 10 to be part of NAVE's fifth generation, whose program will be executed in 2021. These scaleups focus on trends such as artificial intelligence, hyper-automation, virtual reality, augmented reality, IoT, analytics and cybersecurity.

2.6.2) Axtel Digital

Undoubtedly, one of the biggest challenges faced by the Company during 2020 was the digitization speed up caused by the effects of the health contingency, since, in record time, it had to migrate almost all its operations from offices to remote modality. To achieve this transition, the Axtel Digital initiative was instituted, which promotes the creation of a new hybrid work culture, that also contemplates the redesign of office spaces to comply with new regulations and the use of best practices to work in a remotely, digital, secure and productive way.

All the processes of the company were analyzed in detail to determine which functions could be performed remotely and, at the same time, identify the necessary tools to enable employees to maintain productivity and customer experience, achieving that more than 85% of employees could migrate to this modality.

Upon the impossibility to use offices and physical spaces such as the Innovation Hub, during the health contingency the innovation creative process was revolutionized with digital tools to facilitate collaboration among employees and make sure that innovation and process improvement were not held back by the pandemic.

Likewise, institutional applications were adapted to extend their use through new schemes that could provide mobile, agile and easy-to-use capabilities.

Additionally, the Robotic Process Automation (RPA) was implemented, a tool that allows employees to automate some of their activities to reduce risks due to human errors, increase execution speed and economize resources. These solutions are part of Axtel’s permanent strategy to promote the digital profile in working teams.

This new way of working and operating, is part of a permanent and constantly evolving effort to strategically strengthen Alestra and Axtel Networks.

2.7) Information Security

Axtel has a security governance model composed by the management of policies, practices, processes and a work program aligned with the business strategy, where the roles and responsibilities within the organization are clearly defined. This model is headed by the Chief Executive Officer, through the Information Security Committee and in strict adherence to its Public Position on Information Security.

This security model allows the Company to manage cybersecurity risks and ensure the continuity of its services and processes, as well as to promote in its collaborators a culture of information protection of their own and third parties through digital hygiene.

Axtel also has an awareness and training robust program, that strengthens its culture and good habits of digital hygiene with its collaborators, which considers the constant communication of relevant and timely information, specialized courses, periodic campaigns and events with the participation of experts, as well as ethical exercises to constantly fortify the areas of opportunity.

In addition, its operation is certified and adhered to the best practices of several international standards such as ISO 27001, ISO 22301, The American Institute of Certified Public Accountants (AICPA), the Service Organization Controls (SOC) for Cybersecurity, the National Institute of Standards and Technology (NIST), FIRST, PCI-DSS, and SSAE-18.

As a complement, audits, reviews and drills are conducted internally, as well as by third parties, confirming the compliance. Derived from these reviews, the key actors of each business process are informed for timely remediation.

2.8) Main Customers

Axtel has in its portfolio more than 17,000 enterprise customers as well as government dependencies and entities in Mexico; including national and multinational corporations, large and medium-sized companies from the financial sector, retail, education, manufacturing, among others, as well as federal, state and municipal entities of the government sector. In addition, it has important wholesale customers for its Infrastructure Unit.

In 2020, the top ten customers represented 27% of the Company's revenues. The two largest customers accounted for 8% and 6% of total sales, respectively. No other customer represented more than 5% of Axtel's total revenues.

2.9) Applicable Legislation and Tax Situation

2.9.1) Applicable Law in the Telecommunications Industry

General

In June 2013, substantial reforms were enacted in the Mexican Constitution to overhaul the Telecommunications industry's regulatory framework; these reforms are detailed in section 2.11.3) Recent reforms in the Mexican telecommunications industry. The telecommunications industry in Mexico is primarily regulated by the LFTR, which became effective on August 13, 2014, and the 2013 Constitutional Reform empowered the IFT with far-reaching authority over the telecommunications and broadcast industries. Additionally, there are several administrative provisions that regulate the industry.

Under the terms of the LFTR, the IFT is responsible for regulating all aspects of the Mexican telecommunications industry, including those related to regulatory, competency, administrative and operating matters. The IFT is an autonomous and public constitutional entity with the purpose of regulating and promoting competition and overseeing the efficient development of the telecommunications and broadcast industries in Mexico. The IFT is responsible for, among other things, the creation of policies and supervision of the use, development and exploitation of the radio spectrum, orbital resources, satellite services, public telecommunications networks, as well as the provision of broadcasting and telecommunication services, and regulating access to active and passive infrastructure and other essential resources.

The IFT is the highest authority in telecommunications and has the authority to grant and revoke concessions and permits, including the allocation of spectrum frequencies, granting, transferring, renewing or revoking concessions, and establishing interconnection rates and applying penalties for infractions. The IFT makes the final decision on the resolution of these matters, and once a final decision is made, its resolutions can only be revoked through injunctive action (*amparo indirecto*), without the possibility of a provisional suspension while the injunction is resolved.

In December 2019, the governments of Mexico, Canada and the United States reached an agreement to renovate the Free Trade Agreement named T-MEC. This agreement considers the main applicable measures in the field of telecommunications in Mexico that are intended to promote healthy competition. On the other hand, various principles to facilitate digital commerce were also included in the agreement, which will encourage the availability of goods and service through information and communication technologies.

Likewise, to complement Axtel's existing portfolio of solutions with mobility service, services using Altán and Telcel networks are marketed. Furthermore, as a complete virtual mobile operator (OMVC), various resolutions and agreements were obtained that allow Axtel to interconnect with all mobile and fixed operators, in addition to the fact that it has the right to charge mobile interconnection fees.

Concessions

As part of the Constitutional Reform of 2013, in the new Federal Telecommunications and Broadcasting Law, the concession regime of the Public Telecommunications Network (RPT) was eliminated, now the "Single Concession" is foreseen as a general framework to provide any telecommunications and broadcasting public services, which has advantages such as:

(i) Conferring the right to provide all types of public telecommunications and / or broadcasting services if the concessionaire complies with the obligations and tariff payments established by the IFT. If the use of the radio spectrum or orbital resources is required, it must be obtained in accordance with the LFTR, and will be granted by the IFT under the applicable concession.

(ii) Allowing the consolidation of all concession titles under the RPT, thus simplifying administrative processes to comply with obligations.

(iii) Requiring the registration of, among others, the concessions granted, authorizations given, and the associated services allowed. Before starting operations in any telecommunications service, the company in question must request the registration of the corresponding concession title in the Public Registry of Concessions.

(iv) An extension of 30 years in the validity of the concession title, with the option of extending in equal terms. Concessions for the use of the radioelectric spectrum or orbital resources are granted with a validity of 20 years, with the option of extending in equal terms.

In accordance with the applicable legislation, there is a possibility to seize assets that make up a public telecommunications network that has been installed and is in operation, however, the power to intercede in security interests is limited, as an authorization of the IFT is required for a third party to acquire rights with respect to the telecommunications network in question.

In addition to concessions in accordance with Article 170 of the LFTR, the IFT also grants authorizations for:

- Establishing and operating a telecommunications services marketer;
- Installing, operating or exploiting ground stations to transmit satellite signals; and
- Installing and operating cross-border telecommunications and satellite systems.

Additionally, authorized marketers will have the authority to:

- Access wholesale services offered by concessionaires; and
- Market their own services or provide telecommunications services as resellers.

Transfer. Concessions are a matter of transfer of rights after the first three years of granting. The IFT must approve this assignment of the concession title if the transferee agrees to comply with the concession obligations.

As an exception, the authorization of the IFT will not be required, in the case of assignment of the concession by merger of companies, splits or corporate restructuring, in accordance that such acts are within the same control group or economic agent. For this purpose, the operation must be notified to the IFT within 30 calendar days following its completion.

***Termination*.** A concession or permit may end in compliance with the LFTR upon the following events:

- Expiration of its term;
- Resignation by the concessionaire;
- Dissolution or bankruptcy of the concessionaire; or
- Revocation by either of the following events:
    I. Failure to exercise the rights of the concession within the established term;
    II. Perform actions in contravention of applicable law or that affect the rights of other concessionaires;
    III. Failure to comply with the obligations or conditions established in the concession title;
    IV. Refusal to interconnect other concessionaires, partially or totally disrupting or hindering interconnection traffic, without justifiable cause;

V. Failure to comply with the obligation to retransmit television signals of restricted networks, free of charge and on a non-discriminatory basis;
VI. Refusing to retransmit broadcast content;
VII. Change in the nationality of the concessionaire or initiating action to request protection from a foreign government;
VIII. Assignment, lease, or transfer of the concession or authorization, the rights conferred by them, or the assets used for the exploitation of the concession or authorization in contravention of applicable law;
IX. Failure to pay to the Federal Treasury any amount due as fees owed to the Federal Government;
X. Failure to comply with the basic obligations for granting the concession;
XI. Not providing the guarantees or assurances established by the IFT;
XII. Changing the location of the broadcast station without prior authorization from the IFT;
XIII. Change the assigned bandwidth frequencies without authorization from IFT;
XIV. Suspend, totally or partially, telecommunication services in more than fifty percent of the coverage area without justification and without authorization of the IFT for more than twenty-four hours or up to three calendar days in the case of broadcasting;
XV. Failure to comply with resolutions issued by the IFT in conduct cases linked to monopolistic practices;
XVI. Any case of dominant or preponderant economic agents that benefit directly or indirectly from the free retransmission rule of television signals through other operators;
XVII. Failure to comply with resolutions or determinations of IFT regarding the accounting, functional or structural separation;
XVIII. Failure to comply with the resolutions or determinations of IFT regarding the local network unbundling, divestment of assets, rights or necessary equipment, or asymmetric regulation;
XIX. Use of the concession granted by IFT, for purposes other than those requested, or profit from actions prohibited for the relevant type of concession; or
XX. Any other provision set forth under applicable law.

The IFT will immediately revoke concessions and authorizations if sections I, III, IV, VII, VIII, X, XII, XIII, XVI, and XX mentioned above are violated. In other cases, the IFT may revoke a concession or authorization if it has already sanctioned the concessionaire at least twice, under the issues indicated in these sections, except for the case of section IX.

Rescue. In addition to the above, concessions can also be revoked by rescue. The Mexican Government is empowered by law to permanently terminate any telecommunication concession and claim any related asset for reasons of public interest. Under Mexican law, the Mexican government is obligated to compensate the owner of such assets. The amount of the compensation will be determined by an appraiser. If the party affected by the rescue considers that the compensation is not appropriate, it has the right to initiate a judicial proceeding against the government. In this case, the competent authority will determine the appropriate amount of compensation that must be paid to the party affected by the rescue. So far, Axtel is not aware of any case in which the Mexican Government has expropriated a concession from telecommunications companies. There is uncertainty regarding the terms and the amount paid in compensation.

Temporary seizure. The Mexican Government may temporarily seize all assets related to telecommunications concessions or permits in the event of a natural disaster, war, threats to internal peace, economic reasons or for other reasons related to national security. If the Mexican Government temporarily seizes such assets, except in the event of war, it must indemnify the concession holder for the losses and damages, including lost accrued revenues. Axtel is not aware of any instance in which the Mexican Government has exercised its temporary seizure attributions in connection with a fixed or mobile telecommunications services company.

Rates for telecommunications services. In accordance with the LFTR, rates for telecommunications services (including fixed, local and mobile services) are freely determined by the providers of such services, in terms that allow the provision of services in satisfactory conditions of quality, competitiveness, security, retention and non-discrimination.

In accordance with the LFT, a company must register through the IFT's Electronic Rate Registration System prior to the provision of its services.

In case of disagreement over interconnection tariffs or conditions, the IFT has the authority to determine the requirements in terms of rates, quality and types of services. Additionally, it will apply asymmetric measures to the concessionaires that have been declared as Preponderant Economic Agents and / or with substantial power in the market in accordance with the precepts of the LFTR and other applicable regulations. All tariffs for telecommunications services must be registered with the IFT prior its application.

In March 2014, the IFT declared América Móvil (Telcel) a Preponderant Economic Agent, imposing asymmetric regulation upon them, including measures such as zero mobile termination rates for traffic terminating on their networks, requiring Telcel to allow other service providers to use its infrastructure.

2.9.2) Limitation on Capital Stock Investments by Foreign Shareholders – Foreign Investment Law

The holding of shares by foreigners of Mexican companies in certain sectors is regulated by the Foreign Investment Law and the Regulations of the Foreign Investment Law and the National Registry of Foreign Investments. The National Commission for Foreign Investment carries out the provisions of the Foreign Investment Law and its Regulations.

By virtue of the Decree by which various provisions of articles 6, 7, 27, 28, 73, 78, 94 and 105 of the Mexican Constitution were amended and added, regarding telecommunications industry dated June 11, 2013, and the Decree by which the Federal Telecommunications and Broadcasting Law and the Public Broadcasting System Law were issued; and various provisions on telecommunications and broadcasting are amended, added and repealed. On July 14, 2014, the restriction was eliminated so that companies in the telecommunications sector allowed the participation of foreigners in their social capital.

As a consequence of the above, the pertinent modifications were made to the CPOs trust agreement as well as to the issuance act formalized on December 1, 2005, to reflect the elimination of the limitations established for foreign holders of Axtel's CPOs, in order to equalize the corporate rights among the holders of CPOs, without distinction as to their nationality.

On March 26, 2018, an Amendment and Re-expression agreement of the Irrevocable Trust Agreement No. 80471 called Axtel CPO's was signed, for the purpose of modifying, among others, the elimination of the restrictions of corporate rights to foreign holders. Therefore, the amendment to the Certificate of Issuance of the CPOs was carried out and was formalized on May 23, 2018, as well as the respective exchange of the CPOs before the Indeval (*S.D. Indeval, Institución para el Depósito de Valores, S.A. de C.V.*) effected on July 31, 2018.

2.9.3) Income Tax (IT)

The Company is subject to the legislation applicable to variable capital corporations. As of this date, the Company follows all fiscal obligations under its charge and it does not enjoy any specific tax benefit, being a taxpayer of federal and local taxes in accordance with the taxation regimes provided for by the applicable legal provisions. The Company was subject in 2020, 2019 and 2018 to a legal income tax rate of 30%.

2.10) Human Resources

During the year ended December 31, 2020, Axtel had 4 thousand 458 employees, of which 100 are temporary employees. For the years ended December 31, 2019 and 2018, Axtel had 4 thousand 643 employees and 7 thousand 644 employees, respectively.

As of December 31, 2020, due to the complete divestment of the mass market segment, Axtel does not have unionized personnel.

2.11) Environmental Performance and Social Responsibility

In Axtel, sustainability is a way of working that allows us to be efficient and integrate the most important operation aspects in decision-making.

Axtel's operations are subject to local, state and federal environmental protection regulations enforced in Mexico. In 2020, the Company complied with the provisions of the General Law on Environmental Protection, General Law on Climate Change, General Law for the Prevention and Management of Waste, Federal Law on Environmental Responsibility and National Water Law, as well as their respective regulations.

For the thirteenth consecutive year, Axtel received the *Empresa Socialmente Responsable* distinction by the Mexican Center for Philanthropy (CEMEFI). Consistent with the accountability and social and environmental commitment, in 2020, for tenth consecutive year, continues to adhere to the UN Global Compact; in addition, it voluntarily reported emissions to the Carbon Disclosure Project (CDP) in the climate change and suppliers modules.
In 2020, the Company continued fostering internal initiatives where 40 percent of its energy consumption, came from clean – renewable sources.

This focus is reflected in the Company's global sustainability strategy:
Axtel seeks to contribute to a more sustainable future, through labor and environmental practices, by proposing in an honest, ethical and responsible way, innovating solutions to make information and communication technologies available to the society, that also allow the profitability of the Company.
Axtel's Sustainability Model is based on five fundamental topics:

2.11.1) Operating Efficiency

In Axtel, human, economic and material resources are managed honestly, efficiently and in a balanced way, to be able to attract new business opportunities and boost the growth of the markets the Company serves.

Axtel integrates the best practices of corporate governance to ensure adequate financial management that guarantees its sustainability and allows it to generate economic development in its society and country. Therefore, the behavior of Axtel's collaborators is based on the highest standards of personal and professional integrity, complying with the policies, procedures, guidelines, and laws that underpin its operation.

The Company's Code of Ethics is governed by 16 principles that define the principles and guidelines to be followed to generate respectful, non-discriminatory, equitable, inclusive and open-to-dialogue work environments, in addition to establishing the expected behaviors of its collaborators in issues such as anti-corruption, bribery, conflicts of interest, political contributions, human rights, workplace harassment, safety and hygiene, information confidentiality, marketing, communication, environmental protection and community participation, among others.

Additionally, in order to improve the culture of integrity, in 2020 Axtel adopted the Code of Principles and Best Practices of Corporate Governance of the BMV, with the aim of avoiding possible conflicts of interest that could be generated around its commercial practices. As of this year, there is the figure of Compliance Officer, whose function is to monitor and supervise adherence to internal rules and ethical behavior in Axtel.

Through the ALFA Transparency Mailbox, a tool available in several languages 24 hours a day, 365 days a year, Axtel provides its collaborators and stakeholders a way to express concerns and report breaches of our policies and the Code of Ethics. Complaints can be made anonymously and confidentially through email and a toll-free telephone line, reviewed by ALFA's Audit Department.

2.11.2) Innovation and Digital Culture

In order to offer solutions that respond to the real needs of its customers and the market, as well as the challenges demanded by the new normal, innovation remained a priority for Axtel this year. To ensure this and strengthen the supply of products and services, Axtel develops a culture of innovation within the Company, analyzes the megatrends and develops programs and initiatives for continuous improvement.

Internally, it promotes a culture of innovation through the *Innsight* Platform, in which its collaborators submit innovation and continuous improvement ideas that are evaluated by a group of experts to finally determine which ones will be implemented during the year.

In 2020, the innovation culture and continuous improvement program focused on promoting digital transformation projects, including the use of collaborative innovation digital tools that allowed the development of initiatives from home with excellent results. About half of the collaborators participated with a total of 363 ideas, 58% related to digital innovation, which represented benefits close to Ps. 160 million in operating expenses and Capex.

In the Innovation Hub, a space within Axtel's Monterrey Innovation and Technology Campus (CIT), in 2020 explored new technology trends such as artificial intelligence, augmented reality, image recognition and fault detection.

Through accelerator NAVE; its open innovation initiative established alliances with scaleups aligned with the technological megatrends to generate commercial agreements with proposals that allow increasing the productivity of its customers through digitalization.

In 2020, entrepreneurs from the fourth generation of NAVE launched four products to strengthening the Company's digital transformation strategy. Also, more than 1,100 companies from around the world were evaluated, selecting 10 to be part of the fifth generation of NAVE. These scaleups focus on trends such as artificial intelligence, hyper-automation, virtual reality, augmented reality, IoT, analytics, and cybersecurity.

2.11.3) Social Involvement

2020 was marked by social distancing; however, Axtel joined forces to continue supporting the community closely through what they do best. Through Alestra and other entities, connectivity services and software were donated to the National Center for Epidemiological Contingencies and Disasters (CENACED) to provide a contact center for free psychological support for the benefit of the Mexican community.

On the other hand, in order to support our collaborators in medical, hospitalization and funeral expenses, Axtel launched the internal campaign *1 PE $ O VALE 2*, to raising funds with voluntary contributions from collaborators that were duplicated by the company. The voluntary contributions of the more than 800 employees amounted to Ps. 1.1 million, which were doubled by Axtel, raising Ps. 2.2 million in total.

Additionally, Axtel participated in a campaign in San Pedro Garza García, Nuevo León, donating computer equipment aiming local students were able to continue their studies remotely. In Mexico City, 1,640 workstations were donated to the educational centers of *Fundación para la Asistencia Educativa, I.A.P*. that aids underprivileged children with education, food and health services.

2.11.4) Labor Welfare

The new way of working at Axtel, consequent from the COVID-19 pandemic, allowed the operation to be successfully transformed into a remote modality, an impossible achievement without the commitment of its 4,458 collaborators, as well as their interest in promoting , contribute and be part of the Company's digital transformation.

This situation required Axtel to accelerate the digitalization of many processes and the massive deployment of next-generation digital collaboration technology platforms. At the same time, it identified that many collaborators, in addition to fulfilling their work activities, had to work full-time as mothers, fathers and teachers, whereby it encouraged flexibility to be a reality, and some key management processes, such as performance appraisal, will now be based on results and not on hours worked.

The adoption of this remote work modality for 85% of Axtel's collaborators also freed up 1,810 workspaces in Monterrey, Mexico City and Guadalajara, equivalent to more than 22,700m^2.

Since mid-March, most of Axtel's collaborators carry out their activities remotely, but more than 950 collaborators continued working in the field, because Axtel has a key role as an essential industry. Since the beginning of the health crisis, and nowadays, Axtel has taken all necessary actions to guarantee the security measures and protective equipment so that field employees can carry out their activities safely.

In 2020 we offered competitive salaries to our employees in comparison with our market references, 498% above the general minimum salary established by the Ministry of Labor and Social Security (STPS) for the northern border geographic area of Mexico, and 756% above of the general minimum salary established for the rest of the country.

In 2020, 376 collaborators entered Axtel, meanwhile 418 collaborators exited the Company.

Axtel has a benefit plan that includes double the days of the Christmas bonus required by law, major medical insurance, life insurance, savings fund, 20-day leave for personal matters, coverage for disability, maternity and paternity leave. In this regard, during 2020 it provided 48 maternity and 23 paternity leaves, of which 83% and 96% returned to work at the end of their leave.

In addition, Axtel has the *Visiónate* program for executives nearing retirement age, which aims to offer preparation to facilitate the transition to this new chapter in their lives. In 2020, three executives with this age were supported virtually.

In Axtel, the wellbeing of its collaborators has always been a priority. For this reason, they have access to a health and safety management system that is constantly audited to guarantee that it meets the requirements of the Ministry of Labor and Social Security (STPS).

The Safety and Hygiene Commission oversees inspecting work centers, guiding investigations into workplace accidents, following up on safety measures derived from findings, and managing crises related to health issues. In this commission, 80% of Axtel collaborators are represented.

In response to the health crisis, this year a Contingency Committee was created, which meets every 15 days to review the support requests from employees who have been affected by the disease, as well as to define or update the measures preventives in the operation. It is made up of a member of each Executive Directorate. Axtel invested Ps. 5,671,190 in safety kits and other COVID-19 prevention and care actions to its collaborators.

In order to keep collaborators up to date on the pandemic, in 2020 the internal website *Juntos ante el COVID-19* was created, which contains informative and awareness-raising material, the protocols and responsibilities to be followed by employees in relation to health, hygiene, safety and prevention, messages from the General Directorate and a space for psychological support. The program *"Todo sobre la prevención del COVID-19"* of the Mexican Institute of Social Security (IMSS) was provided to all collaborators; 3,619 employees completed the course during 2020.

Additionally, complying with NOM 035, since 2019 Axtel worked on the 360 ° Wellbeing strategy, which consists of a series of guidelines to create healthy work environments, free from any form of violence, abuse, retaliation and / or discrimination, as well as balanced between work-family. In addition, *Mi Liderazgo* y el *Bienestar* program was taught virtually, reaching a participation of 95%. In 2020, the 360 ° Wellbeing Program was strengthened, composed of three dimensions: health, professional and balance, through which it seeks to generate a comprehensive environment of well-being, training and work-family balance.

As part of its permanent activities, Axtel promotes the health of its employees by disseminating disease prevention campaigns. In addition, medical services are available in the work centers, which during 2020 were active nationwide digitally, including follow-up and support to their collaborators and relatives infected by COVID-19. Also, within disease prevention efforts, Axtel implemented a vaccination campaign against influenza benefiting more than 1,600 employees and their families.

A positive effect of the pandemic for Axtel was to integrate and consolidate the digital skills of all employees quickly, following a digital adoption process started more than three years ago. New training programs were developed, and existing ones were strengthened, in addition to reinforcing the dissemination of internal campaigns focused on the physical and psychological well-being of collaborators and their families. In 2020, an extraordinary participation was achieved in many institutional programs such as Digital Productivity, Sustainability, Innovation, Information Security, among others.

Despite the changes in the way of training its collaborators, the action lines were maintained: UniAlestra, in 2020 had three development programs in which 646 Axtel collaborators participated, 69% obtained an accreditation. In addition, 178 employees obtained 233 certifications in different technologies. Moreover, through an internal training network, 65 employees delivered 5,765 hours of technical and induction courses to 856 members of the commercial and operational areas. 90% of training provided during the year was virtual. In 2020, more than Ps. 1.5 million was invested in training.

To identify the skills and capabilities of its employees, as well as the strengths and areas of opportunity, Axtel carries out two types of performance appraisal. A total of 692 collaborators, comprising middle managers, managers and executives, of which 135 are women and 557 men, were evaluated under the 180 ° and 360 ° methodology. On the other hand, 186 executives were evaluated under the 2020 objectives and behaviors scheme.

2.11.5) Environmental Awareness

Aware of the impact environment of its operation, Axtel works to reduce it from four main areas: diversifying energy sources, implementing responsible materials disposal processes, developing better cooling practices and taking advantage of high-efficiency lighting technologies. As a telecommunications company, energy is an essential resource used for the energization of electronic equipment, air conditioning and lighting of spaces.

Committed to improve the way of managing and reporting environmental information, for the first time Axtel prepared an inventory of Greenhouse Gas (GHG) emissions derived from its operations. For this exercise, the direct and indirect emission sources associated with its activities were identified, as well as the energy consumption related to them. This inventory considers the fuels used for the generators operation at sites and those corresponding to the land fleet, and the electrical energy contracted at 1,045 of the sites and offices under Axtel's operational control. The emissions associated with business trips and gasoline consumption resulting from the bonuses given to executives were also considered.

In 2020 Axtel reduced electricity consumption by 12% with initiatives focused on optimization and energy efficiency, such as: shutdown of equipment, transition to clean energy sources, lighting replacement, application of thermal insulation technologies in sites, among others.

Looking to the future, Axtel has the following objectives:

- Migrate to clean energy sources: 76 GWh per year of efficient cogeneration by 2022 and 30 GWh per year of wind or photovoltaic energy by 2023.
- Continue the migration to ecological refrigerants and replace R-22.
- Comply with the maintenance program more than the 95% required.
- Migrate the lighting to LED lamps by 2022, equivalent to a reduction in energy consumption of 0.35 GWh per year.

For 2023, Axtel aims 72% of its energy consumption coming from clean sources; in 2020 this metric represented 40% of its consumption.

The Company continues to report to the Carbon Disclosure Project (CDP) in the Climate Change and Suppliers modules, with the commitment to reduce greenhouse gas emissions.

Axtel has a Waste Management Policy to manage the waste generated in the Company. Since 2018, circular economy initiatives are implemented, which were finally consolidated in 2020 through an Uninstallation, Review and Implementation Project (DRIM), reconditioning some of the fiber optic equipment that is uninstalled to give them a second use instead of discarding them.

In 2020, almost Ps. 10 million were refunded to production, avoiding the purchase of new equipment for Ps. 36 million. Currently, three out of ten materials uninstalled are reconditioned. Axtel has defined an objective of maintaining the recovery and reuse of one tonne per month of these materials, as well as increasing the percentage of electronic waste re-implemented to 40% by 2021.

Also, in 2020, 50,572 kilograms of paper were sent to recycling, 92% were due to the freeing up of buildings in Monterrey. Additionally, as a result of the freeing up of workspaces, many of the electronics that were used in the offices were left in disuse, so more than a ton of this equipment was sent for recycling, while 2,080 pieces were delivered to certified suppliers for its confinement.

2.11.6) Environmental and Sustainability Certifications

- *Empresa Socialmente Responsable*

2.12) Market Information – Mexican Telecommunications Industry

2.12.1) Markets

Axtel is a company focused on the Mexican ICT market, organized in two business units: managed ICT **services** to serve the corporate, enterprise and government segments; and **infrastructure** unit that, as a fiber optic neutral operator provides connectivity services to the services unit as well as other carriers. With a high focus on convergent Telecom managed services (Networks and Collaboration) and Information Technology solutions (Cybersecurity, Cloud and System Integration), Axtel has positioned itself as a brand that has the experience, infrastructure and leading services to energize the ICT industry, and contribute to the development of a new generation of more innovative, efficient and competitive companies. This is backed by strong partnerships with world leading technology partners and a service philosophy that strives for excellence.

The Company has the necessary experience and reputation of providing highest standards of service required by corporations and companies in the most significant sectors of the Mexican economy. Axtel currently has ongoing contracts with most of the international and domestic financial groups in the country, which emphasizes Axtel's important positioning within the financial sector, as in many others.

Enterprise market penetration by service

Service	Market Penetration '20 (%)
Telecom	**21%**
Connectivity and Managed Networks	20%
Voice and Data	26%
Collaboration	15%
Information Technologies	**7%**
Cybersecurity	9%
Data Centers and Cloud Services	8%
System Integration	6%

**Company estimates with information from third parties including industry analysts, such as Gartner, Frost&Sullivan, Pyramid Research, Kable, IDC and 451 Research.*

2.12.2) Market Size and Projected Growth

According to industry analysts, including Gartner, Frost & Sullivan, IDC, Select; Global Data and 451 Research, the Mexican Telecommunications market generated Ps. 82 billion in 2020, a 2.5% annual decrease mainly due to the impact of COVID-19 pandemic and an 8.5% decrease in GDP during the year. For the next 5 years, Telecommunications market is expected to remain at the same level; the projected growth in Connectivity, Managed Services and Collaboration will be impacted by a decrease in Voice and Data services; meanwhile the Information Technology market will grow 10% driven by the growth of Cloud Services, Cybersecurity and Systems Integration.

The Mexican infrastructure addressable market for Axtel is estimated close to Ps. 11 billion in 2020. In the long term, the expected impact of COVID-19 is from neutral to positive given the high demand for connectivity and bandwidth growth. A 12% growth is expected for the next 5 years, mainly driven by the demand for connectivity services from Fiber to the Tower and Fiber to Data Centers, as a result of the increasing demand in mobile data consumption in current 4G network , and the deployment of 5G network in the near future. On the other hand, the increasing traffic among data centers and new technologies and applications that require "Edge Data Centers", will demand high bandwidth connectivity.

2.12.3) Competition

The main competitors in the telecommunications sector are: Telmex (Triara, Scitum,Global Hitts, RedUno), Grupo Televisa Telecom (Bestel, Metrored), KIO Networks (MasNegocio, Smart, TibaIT, Wingu), Grupo Megacable (MCM, Ho1a, Metrocarrier) and Total Play Empresarial.

Telmex. Axtel's main competitor, was formerly the state-owned Telecommunications monopoly. It has the largest nationwide infrastructure covering the full spectrum of the market (enterprise, government, residential, telecom, IT, OTT), additionally America Móvil participates in the mobile market business through Telcel. Its revenues come mainly from the residential market. In 2015, Telmex was declared a preponderant economic agent under the new telecommunications reform, because of its market power and focus on providing local telephony and internet services. Strengthened in the public sector; it has been awarded important multi-year contracts in the current federal administration.

Televisa Telecom. Televisa, the largest Spanish-speaking media company in the world, is the majority owner of Cablevisión, TVI, Cablemás, Telecable and Cablecom. By leveraging its position in the media sector, as well as its strong capitalization, Televisa has entered the Telecommunications industry. For the enterprise and government segment it offers solutions through Bestel (with more than 15 years of experience and part of Grupo Televisa Telecom since 2007), providing voice, networks, internet, information technology and managed services. Televisa is also the majority owner of SKY and Izzi, operator and leader in pre-paid television services in the country. Televisa offers CATV services, broadband internet and telephony services through double-play and triple-play packages. In November 2014, it rebranded its cable service as "Izzi Telecom". Televisa also currently offers its "Blim" service, an OTT platform that competes with Claro Video and Netflix and provides mostly domestic content.

Kio Networks. This company provides an information technology and infrastructure portfolio. It has data centers located in Mexico, Central America, the Caribbean and Europe. It is in a sale process since the middle of last year.

Megacable. It provides internet services, paid television and fixed telephony services to the residential and business segments. In addition, it owns Metrocarrier, MCM, Ho1a and PCTV, providing value-added services that include managed services, equipment and content. Its enterprise segment was mainly impacted in 2020 by a significant decrease in the annual income of its subsidiary Ho1a.

2.12.4) Reforms in Mexico's Telecommunication Sector

In June 2013, important amendments to the Mexican Constitution to reform Mexico's telecommunications sector became effective (collectively, the "Reforms"). The purposes of the Reforms were: (i) to guarantee the right to access information by establishing that telecommunications and broadcasting services must be considered public services; and (ii) to promote a legal framework capable of stimulating competition in both sectors.

The Reforms created a new industry regulator known as *Instituto Federal de Telecomunicaciones* (IFT) which regulates the Telecommunications and Broadcasting sectors and has enforcement powers. IFT serves as the exclusive antitrust authority in the telecommunications and broadcasting sectors pursuant to Article 28 of the Mexican Constitution and has authority to grant and revoke all forms of concessions, as well as to impose fines and sanctions and ensure greater competition in the industry.

On August 13, 2014, the *Ley Federal de Telecomunicaciones y Radiodifusión* (LFTR) became effective. The LFTR empowers the IFT to undertake any and all duties and responsibilities set forth in the Federal Law of Economic Competition (*Ley Federal de Competencia Económica*) (LFCE) in respect to the telecommunications and broadcasting sectors, including, among others, (i) analysis of concentrations; (ii) opinions in bidding processes; (iii) investigation of anticompetitive or monopolistic practices; and (iv) application of sanctions.

The LFTR authorizes the IFT to regulate competition in the telecommunications and broadcasting sectors using a variety of regulatory mechanisms, including:

Determination of the Existence of Preponderant Economic Agents. The IFT may declare, at any time, the existence of a "preponderant agent" in the telecommunications and broadcasting sectors. The LFTR considers a preponderant economic agent to be any person who, directly or indirectly, owns more than fifty percent of the subscribers, users, audience, traffic on their networks, or capacity used on such networks, measured on a national basis, in the provision of broadcasting or telecommunications services.

Asymmetric Regulation. The IFT may impose "asymmetric regulation." Any economic agents that are declared by the IFT to be preponderant economic agents shall be subject to asymmetrical regulation as determined by the IFT, which could be applied in respect to rates, information, quality of services, exclusivity, divestiture of assets, among others. The IFT must verify, on a quarterly basis, compliance with any asymmetric regulation that was issued, and apply any appropriate sanctions. In such process, the IFT may be aided by an external auditor. If the IFT determines that the conditions of effective competition have been restored in a market where an entity was declared as a preponderant economic agent, then the provisions of the asymmetric regulation shall cease to apply. Similarly, if the IFT determines that an entity no longer accounts for more than fifty percent of the subscribers, users, audience, and traffic on their networks, or capacity used on such networks, considering the national participation of such entity, such entity shall be deemed to no longer be a preponderant agent. The LFTR also provides that any entity declared a preponderant economic agent may submit to the IFT a plan with actions it proposes to take to stop being considered a preponderant economic agent.

The LFTR sets forth, among others, the following asymmetric regulations, some of which are applicable to Telmex and Telcel, the current preponderant economic agents in the telecommunications sector:

- To provide annually, and for the approval of the IFT, a public offer in connection with interconnection matters, including a proposed form of agreement to be entered with other operators, disaggregation of its network and share of infrastructure matters, roaming and resale of wholesale services;
- To submit for approval of the IFT, the rates offered regarding services to the public and intermediary services to other concessionaries;
- To provide annual information regarding its wired, wireless and broadcast network, including its development and modernization plans, as well as its infrastructure;
- To allow other operators, disaggregated access to its network and infrastructure on a basis of nondiscriminatory rates, and which do not exceed those rated authorized by the IFT;
- To allow other operators to resell its services;
- To not discriminate between the interconnection traffic of its own network and the interconnection traffic of other concessionaries;
- Provide its services observing the minimal quality standards set forth by the IFT;
- To not establish obligations, penalty fees or restrictions of any kind that may result in the inhibition of the consumers;
- Provide to the IFT detailed accounting information, separated by each service offered;
- Offer and provide services to the other concessionaries, in the same terms, conditions and quality as offered to itself; and
- Abstain from establishing technical or any kind of barriers that may block the development of infrastructure of other concessionaries.

Determination of the Existence of Dominant Agents. The IFT may declare, at any time, the existence of a "dominant agent" in the telecommunications and broadcasting sectors and, similarly to the asymmetric regulations which may be imposed on preponderant economic agents in order to avoid any distortion to the process of free competition, the IFT has the authority to impose specific obligations in order to limit agents with substantial economic power, with respect to information, quality of services, rates, commercial offers and billing.

Consolidation without Notice. Consolidation between economic agents holding concessions may occur without the need to notify the IFT provided that, among other requirements, there is a preponderant economic agent in the market where such transaction takes place and such preponderant economic agent is not one of the parties involved in the consolidation.

Interconnection Rates. While there is a service provider that is considered a preponderant economic agent, the preponderant economic agent, as of 2018, must charge the other concessionaires rates for the termination of calls in their network based on a cost and asymmetric methodology with respect to those charged by other concessionaires. The other service providers (excluding the preponderant economic agent) shall freely negotiate among themselves the applicable rates and, if no agreement is reached, the tariffs shall be determined by the IFT in accordance with the costing methodology determined by the IFT. When there is no longer a service provider considered as a preponderant economic agent, the service providers shall maintain mandatory reciprocal compensation agreements, by means of which payments for termination of traffic shall be avoided.

Functional separation of Telmex. The IFT has ordered Telmex to carry out the functional separation so it will have to create, within two years from 2018, a subsidiary of Telmex, which offers only local wholesale services, both to competitors and to other divisions of Telmex, but must operate independently of the latter.

Must Carry and Must Offer. The LFTR recognizes the “must carry” and “must offer” rules under which, the television broadcasters must offer their signals free of any charge, to the pre-paid television service providers, and, the pre-paid television service providers must transmit such signal, in each case with the limitation that pre-paid television service providers shall not charge their subscribers for these benefits. These obligations also apply to DTH service providers.

Competitive Neutrality. Public entities are permitted to obtain titles or concessions for commercial purposes. Therefore, and to protect the dynamics of competition, the LFTR determines that the state-owned service providers shall act as private enterprises and shall not create distortions to the market since they are public entities.

Sanctions. The IFT is authorized to impose sanctions on the entities or individuals involved in practices that violate the LFCE in the telecommunications and broadcasting sectors. In this regard, the IFT may apply, among others, the following sanctions: (i) fines on the sanctioned operators of up to 10% of their accrued income and, in case such violation is repeated, for up to twice of the amount set forth by the original corresponding sanction; (ii) fines on individuals who participated in monopolistic practices; and (iii) prohibitions on individuals who participated in monopolistic practices, restraining them from serving as directors or business managers.

Other. In addition to the above, the LFTR effects the following important changes:

- Elimination of charges for national long-distance calls, effective January 1, 2015;
- Opening of the mobile telephony market to new service providers, through the Mobile Virtual Network Operator figure;
- Opening of the industry to foreign investment of up to 100% in telecommunications and 49% in broadcasting activities;
- Access to advertising in an equitable and non-discriminatory basis;
- Introduction of certain rights to the users through the participation of the Procuraduria Federal del Consumidor (Federal Consumers Agency) as authority;
- Confers rights to disabled users to access telecommunications services;
- Confers rights to audiences;
- Introduction of rules to cooperate with the authorities in the field of justice; and the
- Introduction of the National Single Emergency Number 9-1-1.

2.13) Corporate Structure

Axtel is a subsidiary of ALFA. Axtel, S.A.B. of C.V. is a holding company that directly or indirectly owns the capital stock of the following companies incorporated in Mexico, except for Alestra USA, Inc., a subsidiary incorporated in the United States.

None of Axtel's subsidiaries are considered significant, that is, none represents more than 10% of the total assets or consolidated revenues of the Company in 2020.

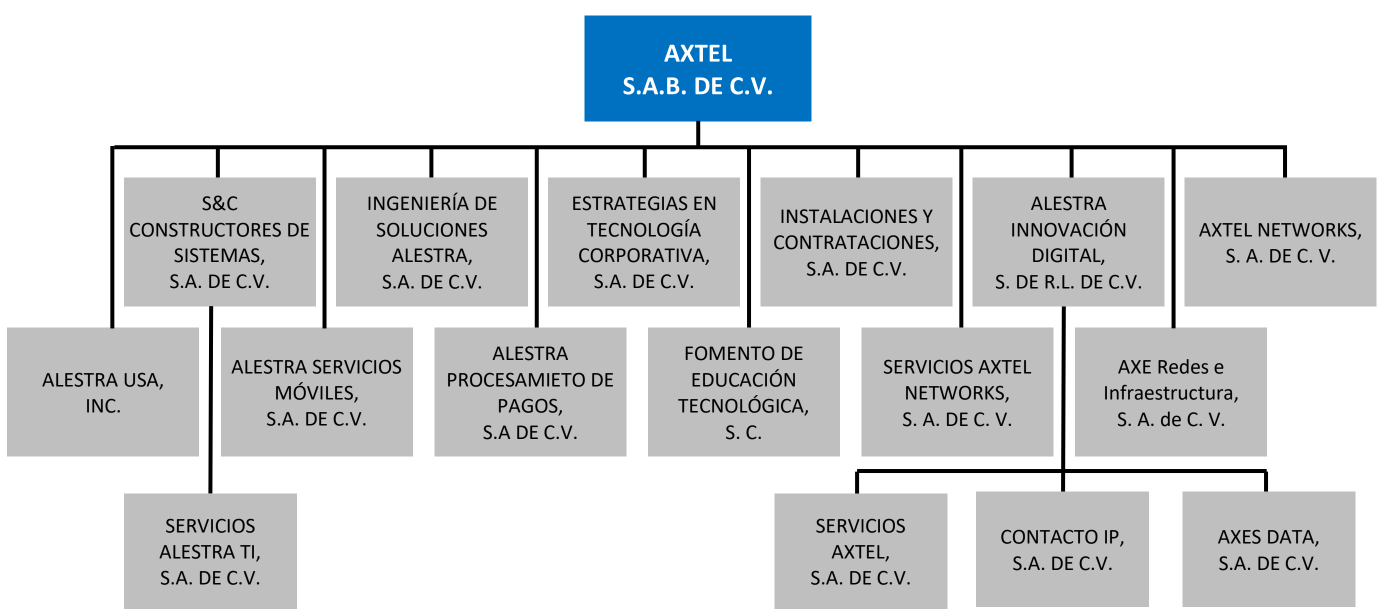
At the Extraordinary General Shareholders’ Meeting held on April 27, 2017, a merger agreement was signed by Alestra, S. de R.L. de C.V. (as the incorporated or merged company) with Axtel, S. A. B. de C. V. (as the incorporating or merging company). This merger was effective on May 1, 2017 and has no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

At the Extraordinary General Shareholder Meeting held on February 26, 2019, shareholders of the Company resolved to merge by incorporation the subsidiaries Avantel, S. de R.L. de C.V. and Servicios Alestra, S.A. de C.V., as the merged entities, in Axtel, S.A.B. de C.V., as the merging entity. Such merger took effect as of June 22, 2019 and has no impact on the operation at the consolidated level of the Company.

Below is the percentage of Axtel's shareholding in its subsidiaries as of December 31, 2020 and the main activity performed by each of them.

NAME	MAIN ACTIVITY	%
Axtel, S. A. B. de C. V. (Holding Company)	Telecommunication Services to the enterprise and government segments	
Servicios Axtel, S.A. de C.V.	Administration Services	100%
Alestra Innovación Digital, S. de R. L. de C. V.	Telecommunication Services for the Government Segment	100%
Axes Data, S.A. de C.V.	Administration Services	100%
Contacto IP, S.A. de C.V.	Administration Services / Call Center	100%
Instalaciones y Contrataciones, S.A. de C.V.	Administration Services	100%
Ingeniería de Soluciones Alestra, S.A. de C.V.	Administration Services	100%
Alestra USA, Inc.	Leasing of equipment and infrastructure / Without primary operations	100%
S&C Constructores de Sistemas, S.A. de C.V.	No operations	100%
Estrategias en Tecnología Corporativa, S.A. de C.V.	Information Technology Services	100%
Servicios Alestra TI, S.A. de C.V.	Administration Services	100%
Alestra Procesamiento de Pagos, S. A. de C. V.	Information Technology Services	100%
La Nave del Recuerdo, S. A. de C. V.*	Legally created company without operations	100%
Contacto IP FTTH de México, S. A. de C. V.*	Legally created company without operations	100%
Alestra Servicios Móviles, S. A. de C. V.	Telecommunication Services	100%
Fomento de Educación Tecnológica, S. C.	Training and Development Services	100%
Axtel Networks, S. A. de C. V.	Legally created company without operations	100%
Servicios Axtel Networks, S. A. de C. V.	Legally created company without operations	100%
AXE Redes e Infraestructura, S. A. de C. V.	Legally created company without operations	100%

** In liquidation process.*



2.14) Description of Main Assets – The Company's Network

2.14.1) Facilities

All Company's properties are located in Mexico. Its headquarters are in San Nicolás de los Garza, Nuevo León, Mexico. The Company's corporate office has 18,600 square meters consisting of two buildings (CIT and CAI). Additionally, the Company owns and leases properties in different cities of Mexico which are used for offices, work centers or warehouses, switches, call centers, etc. Properties of more than 3 thousand square meters of surface, excluding base stations, are detailed as follows:

Name	Use	Location	Area in m2	Property	Contract Ending Date	Contract Start Date
CIT	Technology	Monterrey	16,009	Axtel	-	-
Switch 1 Gdl. - La Paz	Technology	Guadalajara	5,550	Axtel	-	-
CIC Apodaca	Operating Center	Monterrey	3,441	Lease	30/03/2024	01/04/2019
Naucalpan Building	Operating Center	Mexico	3,213	Lease	01/09/2012	31/08/2022
Óptima Tower	Administrative	Mexico	3,159	Lease	31/01/1996	31/10/2025
Switch 2 Mex - Uxmal	Technology	Mexico	3,030	Axtel	-	-

2.14.2) Telecommunications Network

The Company has a network infrastructure of approximately 44,300 kilometers of fiber (including 12,600 km of IRU capacity). Axtel provides network transport using a national fiber optic network combined with a local hybrid access designed to optimize capital investments through the deployment of equipment to access the network, based on the specific needs of each customer. The Company's access options include last mile fiber optic, point-to point and copper, all connected through 21,300 kilometers of metropolitan fiber optic rings.

The Company's wireless network uses microwave radios, TDM switches and next generation switches (Softswitch) and other types of infrastructure provided by recognized providers including Motorola, Nokia, Siemens Networks, Ericsson, Ribbon, among others. Axtel's internet platform is based on Cisco, Alcatel Nokia & Huawei routers with Hewlett Packard servers and software applications developed by Microsoft Corporation. Local fiber networks or metropolitan fiber optic rings use OFS Optical Fibers of Mexico, Samsung, Huawei and AFL, and optical transmission equipment from Alcatel-Lucent (Nokia), Nokia-Siemens Networks (Infinera) and Huawei. The combination of these components allows the Company to offer network reliability, which is superior to the network used by other providers.

In general, the ability to access advanced technologies directly increases the cost of the solutions. The capacity of Axtel's local hybrid access allows the Company to:

- Provide a variety of IT and Telecom services;
- Meet demand quickly;
- Penetrate specific markets, and
- Dimension the deployed infrastructure to meet the market demand and the individual needs of customers.

This network infrastructure enables Axtel to meet the needs of various market segments while pursuing investment efficiencies.

Access Connectivity

The last-mile connectivity portion of Axtel's network is comprised of a mix of fiber optics technology and microwave links for enterprise, finance and government sectors, located within the coverage range. The access technology to be used is determined based on a cost-benefit analysis, based on customers' needs and service availability. Using the ethernet technology in last mile fiber optic access, Axtel also provides advanced data and voice services with high security standards to large companies and financial institutions.

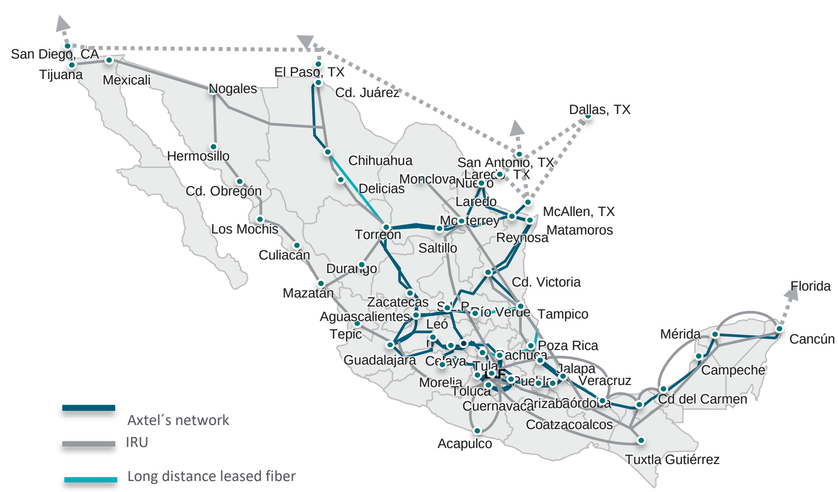
Axtel's point-to-point access, as well as the fiber optic links, are used for customers requiring digital trunks or dedicated private lines of more than 2Mbps. The Company also uses hybrid solutions or combines multiple technologies to reach more customers by expanding service using digital fiber solutions and specific technologies.

Network Overview

Optic Fiber Network (km)	44,300	Last mile access (#)	~38,300
Long Distance Network (km)	23,000	Fiber connected towers (#)	2,068
Metropolitan Network (km)	21,300	POPs (#)	>1,000
Cities (#)	71	Spectrum Frequencies	7 / 10.5 / 15 / 23 / 38 GHz

Long Distance Network

Axtel's long distance transport network is approximately 23,000 kilometers in length, comprised of 10,400 km of its own infrastructure and the rest consisting of access through irrevocable right-of-use contracts that support digital hierarchical synchronization ("SDH"), optical transport network (OTN) and shipping technology through simultaneous channels through different wavelengths ("DWDM - dense wavelength division multiplexing"). SDH/OTN allow the implementation of bi-directional ring architecture, a system that allows instantaneous redirection of traffic in case of equipment failure or a fiber cut. DWDM technology allows a large transmission capacity in the same physical infrastructure by the installation of additional electronic equipment. Axtel's transport network connects 71 cities through its own infrastructure and covers strategic cities in Mexico and the United States to provide customers with critical cross-border connectivity services through 5 international border crossings.



Voice Switching

The Company uses 14 Ribbon digital switching centers called the DMS-100. Ten of these centers route local and long-distance traffic, four of these centers specialize in receiving and sending long distance traffic from 397 service areas in Mexico and international traffic from the United States and the rest of the world. Axtel also uses six Genband Call Server 2000 Next Generation (Softswitchs) switches; even more, it has four Ericsson AXE TL4 Digital Switching Centers for local service, two located in Mexico City, one in Monterrey and one in Guadalajara. The Company also has new generation digital switches (Softswitchs) SoftX3000 Huawei Softswitches, that provide local services and commute all international voice over IP traffic. Additionally, the Company also has 3 5ESS stations that provide Long Distance national and international services, as well as 4 Sonus SoftSwitch that route local and long-distance traffic, Axtel also has the Broadsoft platform that gives local service to the medium market through SIP Lines. With all this switching equipment, the Company can provide voice services in 62 cities.

Network Administration

Axtel has six network monitoring and administration centers, five located in Monterrey and another one in Guadalajara. These centers supervise the correct operation nationwide using new generation systems. The monitoring occurs 24 hours a day, seven days a week. Any event detected by the centers is attended through a diagnostic process until its solution.

2.14.3) Network reliability

Providing a reliable service despite the technological disruption’s risks such as technical failures, cyber-attacks, weather events and natural disasters, is one of the Company's greatest challenges.

To guarantee services and solutions distribution, even when they could be affected by an unexpected situation, the Company has a Business Continuity Management System; with strategies, plans and drills considering logistics, actions and procedures necessary to recover its critical processes and services within established target times, minimizing impacts for the Company and its clients.

Therefore, Axtel has the ISO 22301 certification that manages the business continuity of its services and infrastructure in the event of disruptive events.

Axtel´s operation is governed by a procedural scheme based on international recommendations and standards such as ITIL, ISO 9001 and ISO 27001, in addition to promoting agility practices and developing the capabilities of its collaborators in more than 500 certifications that allow it controlling the network technologies.

On the other hand, KPIs are defined to measure customer experience, response times to incidents, network and services availability, among others, which are constantly measured in order to undertake continuous improvement activities. Also, for several years control mechanisms have been implemented for hurricane seasons and power failures in the public network.

Likewise, on a recurring basis with Information Security, drills of failures or catastrophic situations that could occur on the network are carried out. In 2020, 57 natural events occurred in an extraordinary way, mainly hurricanes, in addition to a massive event of power failures. In both cases, the Company applied the necessary efforts and resources that allowed a response on time without major consequences, maintaining the service levels committed to its customers. In 2020, 99.99996 availability was obtained in the software and IT services provided to customers.

To guarantee services reliability, important projects were implemented, which include the following:

- Updating of force platform and air conditioning of network infrastructure sites.

From 2018 to 2020, the energy supply and environmental control platforms of the infrastructure were updated, equivalent to the replacement of 15% in electromechanical infrastructure and 4% of environmental equipment such as air conditioners.

- Strengthening of TELCO infrastructure.
  In a consistent way, improvement analyzes were carried out to prevent recurrence of failures, thereby managing the implementation of redundancies or alternative paths.

- Annual software update plan.
  In 2020, more than 4,000 network elements were updated, to allow the incorporation of best functionalities of the technology, in addition to maintaining the guarantees with the manufacturers, letting the Company to access to expert support levels.

The integration of experience and technology, such as the best practices based on Big Data and machine learning technologies enable the automation of processes, as well as the development of predictive tools that put Axtel a step forward in the timely detection and resolution of network incidents.

2.14.4) Information Technology Systems

Axtel has an information technology architecture that is based up on Pega for customer relationship management system (CRM), SAP software for enterprise resource planning (ERP) and financial and administrative functions, Netcracker software for billing; Net Boss and MicroFocus for network management and monitoring. These systems enable Axtel to perform on-line sales, manage customer requests, generate accurate bills and produce timely financial statements. Also, they allow the Company to respond to customer requests with speed, quality and accuracy.

Additionally, the new digital architecture evolution included new software assets. In Alestra, low-code and micro-services licensing (Pega) have made possible to streamline sales cycles, simplify operational processes and improve data analytics. Strategies like “Alestra OneTouch” represent important intellectual property in Customer Service strategy. For Axtel Network, new digital platforms support machine-to-machine interaction, enabling international standards (Metro-Ethernet Forum - MEF) position it as a world-class operator. Also, platforms have been added for the automation of field engineers (OfficeTrack); collaboration and analytics platforms (Microsoft Teams), design-thinking (Miro/Trello) and robotic process automation (AutomationAnywhre) to enable collaborator interactions and increase productivity.

2.14.5) Other Topics Related to the Company’s Assets

At the date of this report, Axtel's assets are free of encumbrances.

Axtel's main assets comply with the industry's own environmental and maintenance safety standards. The telecommunications network was built and operated based on international standards of reliability, redundancy and restoration.

Axtel is insured with coverage against five categories of risks: (i) assets; (ii) transportation, (iii) civil liability, (iv) Cyber and (v) Crime. The all-risk policy insures assets for hydrometeorological events, hurricanes and other weather conditions, earthquakes, equipment breakdown, fire, among other catastrophes. Transportation policies offer coverage for all import and export equipment, whether shipped by air, land and or sea. There are also civil liability policies, which provide coverage for damages to third parties and insure goods, products and people, including advisors and managers, in addition to professional civil liability for technology services. Cyber policies are to protect and restore damage to data and systems, cyber extortion, regulatory fines, business interruption, data confidentiality and third-party liability caused by ransomware, phishing, spyware, malware, among others, and Crime, also restores the financial damage of all the above as well as financial losses due to internal or external fraudulent acts. In addition, as required, insurance policies are contracted to comply with local regulations or specific needs, such as commercial automobiles, workers' compensation and employee practices. Axtel considers that the insurance coverage is reasonable in amount and consistent with industry standards, and do not anticipate having any difficulties in renewing any of its insurance policies.

2.15) Judicial, Administrative and other Legal Proceedings

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

Interconnection Disagreements with other Mobile Operators.

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

2018 rates

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.

2019 rates

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.

2020 rates

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

2020 rates

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.

d. Interconnection disagreements with Telmex & Telnor.

2011 rates

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 thousand and $US12,701 thousand 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 thousand 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 thousand 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 thousand, 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 thousand, which was challenged and is pending.

Notwithstanding the foregoing, the Company paid $36,768 thousand, 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 thousand, 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.

<u>2.16) Capital Stock</u>

Subscribed and Paid in Capital

In accordance with the provisions of the LMV, Axtel may issue different series of non-voting shares, limited voting shares and other restricted corporate rights. The shareholders' meeting that decides on the issuance of such series of shares shall determine the rights that will correspond to the new series of shares.

Since the Company is a public stock company with variable capital, its capital stock must be made up of a fixed part and may have a variable portion. To date, the capital stock of Axtel, being the fixed minimum with no right to withdrawal is the amount of $464,367,927.49, represented by 20,249,227,481 ordinary shares, nominative, without expression of nominal value, of Class "I" Series "B", fully subscribed and paid; and it does not have shares issued or subscribed in its variable part. Axtel and its subsidiaries may not own shares representing the capital stock of Axtel, notwithstanding the foregoing, in certain cases, the Company may repurchase its own Shares. As of March 31, 2021, there were 414,910,601 shares in Axtel's treasury, derived from the stock buyback program.

Repurchase of Shares

Pursuant to what is established in the LMV, the bylaws of the Company establish the possibility that Axtel may acquire its own shares in the BMV at the market price of that moment. The Repurchase of Shares will be on the account of the capital stock of the Company if the Shares stay in the possession of Axtel, or on the account of the capital stock if the repurchased Shares become treasury stock. The ordinary general meeting of shareholders will have to approve the total amount destined for the purchasing of own Shares for each exercise, amount which shall not exceed the total amount of net income of the Company, including the retained earnings. The Board of Directors will have to designate the responsible people to carry out this repurchase of Shares, as well as their sale. The repurchased Shares shall not be represented in the meetings of shareholders. The repurchase of Shares will be carried out and will be reported and disclosed in accordance with applicable legal provisions.

At the Ordinary General Shareholder Meeting held on March 5, 2021, shareholders of Axtel resolved that the maximum amount of resources to be used for the repurchase of shares during 2021 will be Ps. 200 million.

The movement of the number of ordinary shares of the Company during 2019 and 2020 was:

	Number of Shares
Initial Balance as of January 1, 2019	20,249,227,481
Share Buybacks during 2019	174,314,077
Ending Balance as of December 31, 2019	20,074,913,404
Share Buybacks during 2020	237,843,543
Ending Balance as of December 31, 2020	19,837,069,861

Variations in the Capital Stock of the Company in the last three years

In 2020, 2019 and 2018, there were no variations in the Company's capital stock, thus to this date, the number of shares representative of the capital stock of the Company is 20,249,227,481 ordinary shares.

As of December 31, 2020, there were 412,157,620 shares in Axtel's treasury, derived from the stock buyback program.

Derivative financial instruments whose underlying is shares or CPOs of Axtel

As of December 31, 2020, 2019 and 2018, the Company has entered into Over the Counter (OTC) transaction agreements with Bank of America Merrill Lynch (BAML) and Corporativo GBM, S.A.B. of C.V. (GBM) called "Zero Strike Call" or options at a price very close to zero. The underlying asset of these instruments is the market value of Axtel's CPOs, the settlement method can be in cash or in shares at the option of the Company. The original term of these contracts is 6 months and can be extended by an agreement between the parties; however, as it is an American option, the Company may exercise it at any time before the expiration date. The financial instrument with GBM was exercised in its entirety during the months of May and June 2019; while the financial instrument with BAML was exercised in its entirety during the months of July and August 2020. For more information, see section *3.4.2) Financial situation, liquidity and capital resources - Financial instruments.*

2.17) Dividends

The dividend payment decree is approved by an ordinary general shareholders' meeting, by the vote of the majority of the shareholders representing the Company's capital stock. In accordance with Mexican law, the Company can only pay dividends at the expense of retained earnings when losses from previous years have been covered.

Axtel's shareholders' meeting has not established a specific dividend policy, since the Company is restricted from paying dividends in accordance with its bylaws and the provisions of certain credit agreements and debt issuance schemes that it maintains to date. The Company intends to retain future earnings to be used to finance the development and expansion of the business and, consequently, it does not intend to declare or pay cash dividends in the near future and as long as the aforementioned restrictions exist. Any declaration or payment of dividends in the future will be carried out in accordance with the provisions of Mexican law and will depend on various factors, including operating results, financial situation, cash needs, tax considerations, future projects and any other factors that the Board of Directors and the shareholders consider important, including the terms and conditions of the loan agreements currently in place.

3) FINANCIAL INFORMATION

Concept *(in thousands of pesos)*	2020	2019	2018
Revenues	12,355,981	12,783,633	12,788,484
Gross profit (loss)	6,184,694	6,679,206	6,497,506
Operating profit (loss)	2,772,500	773,835	695,480
Net profit (loss)	361,255	(13,939)	1,094,678
Net profit (loss) per share	0.018	(0.001)	0.054
Property and equipment acquisition	(2,145,806)	(1,762,030)	(1,870,701)
Depreciation and amortization	3,384,219	3,578,541	3,622,713
Total assets	23,703,845	24,330,769	28,155,802
Total long-term liabilities	14,164,681	15,742,136	15,756,995
Acc. Receivables Rotation	4.61	4.41	4.42
Acc. Payables Rotation	3.28	3.13	3.02
Inventory Rotation	77.92	64.84	45.99
Total Capital	3,495,273	3,410,977	3,620,907
Cash dividends per share	0	0	0

3.1) Selected Financial Information

On January 1, 2012, the Company adopted International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as its accounting framework to prepare and present its financial statements.

Some of the figures included in this Report were rounded to facilitate their presentation. The percentages included in this Report are not necessarily calculated based on rounded figures, but in some cases are based on non-rounded figures. For this reason, it is possible that some of the percentages included in this Report are different from those that would be obtained in the corresponding calculation based on the figures included in the Audited Financial Statements. In addition, it is possible that some of the figures included in this Report do not equal the arithmetic sum of the corresponding items due to rounding.

The following table contains a summary of the consolidated financial information as of December 31, 2020, 2019, and 2018 and for the years then ended, derived from the information contained in the audited consolidated Audited Financial Statements attached to this Annual Report.

The information presented below should be read in conjunction with "Management's Comments and Analysis on the Financial Situation and Results of Operations" and the Audited Financial Statements and notes attached to the Annual Report.

(in million pesos)	**Years ended January 31,**		
	2020	**2019**	**2018**
Estado de Resultados:			
Revenues	12,356.0	12,783.6	12,788.5
Operating costs and expenses [(2)]	(9,583.5)	(12,009.8)	(12,093.0)
Operating profit (loss)	2,772.5	773.8	695.5
Interest expense, net	(1,339.1)	(1,408.5)	(1,816.5)
Exchange gain (loss), net	(385.3)	290.3	186.9
Change in fair value of financial assets, net	105.8	(8.9)	(35.2)
Share of results in associates, net	—	—	—
Profit (Loss) before taxes	1,153.9	(353.3)	(969.3)
Income taxes	(792.6)	15.3	(37.3)
Discontinued Operations [(1)]	—	324.1	2,101.3
Net Profit (loss)	361.3	(13.9)	1,094.7
(Loss) Profit per share:			
(Loss) Profit per basic share: Basic and diluted:	0.018	(0.001)	(0.054)

Weighted average of common outstanding shares (in millions):	19,987.6	20,183.6	20,249.2
Dividends decreed per share	—	—	—
Other Financial information:			
Depreciation, amortization and impairment of long-life assets	3,554.5	3,692.0	3,697.3
EBITDA (3)	6,327.0	4,465.8	4,392.8
EBITDA as percentage of revenues	51.2%	34.9%	34.3%

(1) Operations of the Mass Market Segment, both the portion of the fiber business sold to Televisa in December 2018, and the portion sold to Megacable in 2019, are classified as discontinued as required by IFRS. Therefore, they are presented separately in the consolidated income statement for 2019 and 2018. For more information, see Note 22 of the Audited Financial Statements appended to this Annual Report.

(2) This means cost of sale and services, plus administrative and selling expenses, plus depreciation and amortization, plus other operating income (expenses).

(3) For the purposes of the Company, it has been defined as the result of adding to the operating (loss) profit, the depreciation and amortization and impairment of assets. Not audited. 2020 figure includes extraordinary profit from the sale of data centers for Ps. 2,021 million.

(in million pesos)	Years ended December 31,		
	2020	**2019**	**2018**
Statement of Cash Flows:			
Net Cash Flow from:			
Operating Activities	4,207.8	2,956.7	5,411.0
Investing Activities..........................	729.1	(527.8)	(2,376.0)
Financing Activities	(2,600.5)	(3,821.0)	(6,811.8)
(Net decrease) Net increases in cash or cash equivalents	2,336.4	(1,392.1)	975.2

(in million pesos)	Years ended December 31,		
	2020	**2019**	**2018**
Balance Sheet:			
Cash and equivalents.........................	3,124.0	857.7	2,249.1
Net working capital (1)........................	(215.7)	(368.1)	(989.6)
Total assets..	23,703.8	24,330.8	28,155.8
Total debt	15,271.3	14,834.0	15,622.7
Total liabilities	20,208.6	20,919.8	24,534.9
Total stockholder's equity	3,495.3	3,411.0	3,620.9
Net assets (2)	11,361.9	12,595.9	15,115.9
Capital common stock	464.4	464.4	464.4
Weighted average of outstanding shares (in millions)	19,987.6	20,183.6	20,249.2

(1) Net Working Capital is calculated by subtracting Cash and Equivalents, Accounts Payable and Accumulated Liabilities, Payable taxes and other accounts payable from Current Assets.

(2) Net Assets is calculated by adding Net Working Capital to Property, plant and equipment, net.

3.2) Financial Information per Line of Business

The Company's Board of Directors and the CEO evaluate the Company's performance by monitoring the results by unit and by type of service.

	2020				2019				2018			
(in million pesos)	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
TOTAL REVENUES	**3,106**	**3,078**	**3,095**	**3,077**	**3,147**	**3,092**	**3,167**	**3,378**	**3,049**	**3,154**	**3,140**	**3,446**
INFRASTRUCTURE UNIT:	**1,169**	**1,316**	**1,280**	**1,218**	**1,259**	**1,247**	**1,280**	**1,384**	**1,232**	**1,171**	**1,225**	**1,216**
Third-party	554	706	668	604	623	611	644	728	596	535	589	580
Alestra	615	610	612	614	636	636	636	656	636	636	636	636
SERVICES UNIT:	**2,552**	**2,372**	**2,427**	**2,473**	**2,524**	**2,481**	**2,523**	**2,650**	**2,453**	**2,619**	**2,551**	**2,866**
Enterprise:	**2,015**	**1,925**	**1,959**	**1,935**	**2,003**	**2,034**	**1,988**	**1,993**	**1,924**	**1,978**	**1,959**	**2,153**
Telecom	1,710	1,609	1,588	1,569	1,740	1,775	1,721	1,714	1,712	1,731	1,707	1,831
IT	305	316	371	367	263	259	266	279	212	247	253	321
Government:	**537**	**447**	**468**	**538**	**521**	**446**	**535**	**657**	**529**	**641**	**592**	**714**
Telecom	239	236	226	258	298	234	283	257	238	293	293	350
IT	298	211	242	280	222	212	252	400	291	348	299	363
Interunit Eliminations(1)	**(615)**	**(610)**	**(612)**	**(614)**	**(636)**	**(636)**	**(636)**	**(656)**	**(636)**	**(636)**	**(636)**	**(636)**
COSTS AND OPERATING EXPENSES (2)	**(2,160)**	**(1,943)**	**(2,046)**	**(2,050)**	**(2,071)**	**(1,998)**	**(2,085)**	**(2,214)**	**(2,066)**	**(2,103)**	**(2,108)**	**(2,400)**
OTHER REVENUES (EXPENSES)	**2,028**	**87**	**30**	**25**	**(2)**	**0**	**28**	**23**	**122**	**95**	**13**	**51**

(1) Infrastructure Unit's revenues coming from the Services Unit are presented as "eliminations".
(2) Does not include depreciation and amortization.

Revenues

The Company obtains its revenues from the following categories:

Services Unit (Alestra):

(i) *Enterprise Segment*: The Company provides Telecom and IT services to the enterprise segment, including medium and large companies, corporations and financial institutions.

a. *Telecom*: The main services provided are:

- *Voice:* Local and international long-distance calls to fixed and mobile phones, international traffic (transportation or termination of calls originated outside of Mexico), 800 number services and voice over IP, among others.
- *Data and Internet:* Private lines, dedicated links and dedicated internet.
- *Managed Networks:* Includes managed services, VPN, Ethernet, collaboration, LAN and Wireless LAN, SD-WAN, among others.

b. *Information Technology ("IT"):* The Company generates revenues providing IT services to the Enterprise segment, such as system integration, hosting, managed applications, cybersecurity, cloud services and digital innovation.

(ii) *Government Segment*: The Company provides the same Telecom and IT services previously described to federal, state and municipal government entities.

Infrastructure Unit (Axtel Networks):

The Company provides fixed (including Alestra) and mobile, national and international operators, data center and tower operators, internet giants, as well as content and cloud providers, a wide range of services based on its fiber optic network and spectrum.

The following table summarizes the revenues and percentage of revenues by business unit.

(in million pesos)	Years ended on December 31,							
Revenues	**2020**	**2019**	**2019 *Pro forma*(1)**	**2018**	**2020**	**2019**	**2019 Pro Forma(1)**	**2018**
TOTAL REVENUES	**12,356**	**12,784**	**12,528**	**12,788**	**100%**	**100%**	**100%**	**100%**
INFRASTRUCTURE UNIT:	**4,983**	**5,170**	**4,765**	**4,843**	**40%**	**40%**	**38%**	**38%**
Third-parties	2,532	2,607	2,351	2,299	20%	20%	19%	18%
Alestra	2,451	2,564	2,414	2,544	20%	20%	19%	20%
SERVICES UNIT:	**9,824**	**10,177**	**10,177**	**10,490**	**80%**	**80%**	**81%**	**82%**
Enterprise:	**7,834**	**8,018**	**8,018**	**8,014**	**63%**	**63%**	**64%**	**63%**
Telecom	6,476	6,950	6,950	6,982	52%	54%	55%	55%
IT	1,358	1,068	1,068	1,033	11%	8%	9%	8%
Government:	**1,990**	**2,159**	**2,159**	**2,475**	**16%**	**17%**	**17%**	**19%**
Telecom	960	1,072	1,072	1,173	8%	8%	9%	9%
IT	1,030	1,086	1,086	1,302	8%	8%	9%	10%
Inter-Unit Eliminations (2)	**(2,451)**	**(2,564)**	**(2,414)**	**(2,544)**	**-20%**	**-20%**	**-19%**	**-20%**

(1) In January 2020, Axtel concluded a strategic agreement and divestment of three data centers. For comparison purposes in this Annual Report, 2019 results were adjusted for this transaction ("pro forma").

(2) Infrastructure Unit's revenues coming from the Services Unit are presented as "eliminations".

Costs and Operating Expenses

The Company's costs are classified as follow:

- Cost of sales and services includes charges for leased lines, normally paid on a per circuit per month basis to last-mile access suppliers, interconnection costs, including local and resale access charges, paid on a per minute basis, and payments to international operators paid on a per minute basis to complete international calls originated in Mexico. Also, costs related to billing, receipt of payments, operator services and private leased links.
- Operating expenses include compensations and benefits to employees, maintenance expenses, advertising, energy and fuel consumption, travel expenses, leasing expenses, professional fees, among others.
- Depreciation and amortization include the depreciation of all the telecommunications network infrastructure and equipment, and the amortization of pre-operative expenses, as well as the cost of licenses for the use of radioelectric spectrum and others.

3.3) Relevant Credit Agreements

As of December 31, 2020 and 2019, the balance of Axtel's debt was $15,271.3 and $14,834.0 million, respectively. The following table shows the integration in million Pesos:

Description of Credits	As of December 31, 2020	As of December 31, 2019
Bank loan with Bancomext at TIIE + 2.1% maturing in 2028. Interests is payable quarterly.	3,243.8	3,263.5
Unsecured Senior Notes due November 14, 2024. Interests payable semi-annually at an annual rate of 6.375%.	9,974.4	9,422.6
Syndicated loan due December 15, 2022. Interests payable monthly at a rate of TIIE + 2.375%.	--	1,320.0
Bilateral loan with Export Development Canada for up to US $50 million, or its equivalent in pesos, maturity on June 1, 2021. Interests payable monthly at TIIE28d + 1.875%.	987.6	--
Short-term loan with MUFG Bank México maturing on March 19, 2021. Interest is payable monthly at a rate of TIIE + 1.70%.	200.0	
Short-term loan with Banorte maturing on February 10, 2021. Interest is payable monthly at a rate of TIIE + 1.75%.	110.0	
Financial leases entered with various banking institutions at approximate rates of 6% for those denominated in US dollars, and TIIE plus 3% and 5.5% for those denominated in pesos, with maturities ranging from 1 to 3 years. (As of January 1, 2019, leasing liabilitites.)	767.2	866.1
Accrued interests	105.8	111.9
Debt and financing issuance costs	(117.4)	(150.0)
TOTAL	**$ 15,271.3**	**$ 14,834.0**

In addition to short and long-term financial liabilities that are reflected in the Audited Financial Statements, the Company does not have any tax debts and the principal and interest payments have been made on time. There is no priority in the payment of the credits mentioned above.

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: defined as adjusted EBITDA divided by financial expenses for the last twelve months of the period analyzed. This factor cannot be less than 3.0 times for 2019 and 2020, and 2.25x por the first quarter of 2021.
b. Leverage ratio: defined as net consolidated debt (current and non-current debt, net of debt issuance costs, less unrestricted cash and cash equivalents) divided by EBITDA for last twelve months.
For each quarter of 2019, this factor cannot exceed 4.0 times; for each quarter of 2020 it cannot exceed 3.5 times, and for the first quarter of 2021 it cannot exceed 4.25 times.

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

- Grant liens on assets;
- Enter into transactions with affiliates;

- Conduct a merger in which the Company is dissolved, unfavorable sale of assets; and
- Pay dividends.

As of December 31, 2020, and as of the date of issuance of this Report, the Company and its subsidiaries complied satisfactorily with the covenants established in the credit agreements.

3.4) Management's Discussion and Analysis on the Company's Operating Results and Financial Situation

Operating results for the years ended December 31, 2020, 2019 and 2018 are presented below, as well as the financial situation as of December 31, 2020, 2019 and 2018.

3.4.1) Operating results for the years ended December 31, 2020 and December 31, 2019

Note: In January 2020, Axtel concluded a strategic agreement and divestment of three data centers. For comparison purposes in this report, the 2019 results were adjusted for this transaction ("pro forma").

Revenues

For the year ended December 31, 2020, total revenues were Ps. 12,356 million, a 3% decrease compared to Ps. 12,784 million in the same period of 2019; or a 1% decrease compared to 2019 *pro forma*, due to a 3% decrease in Services revenues, partially mitigated by a 5% increase in Infrastructure *pro forma* revenues.

The Company's revenues are derived from the following business units:

Infrastructure Business Unit ("Axtel Networks")

2020 revenues totaled Ps. 4,983 million, a 5% increase compared to 2019 *pro forma*, mainly due to an 8% increase in revenues from third-party wholesale customers. Revenues coming from Alestra Services Unit represented 49% of total 2020 Infrastructure revenues. Without considering the revenues coming from Alestra, total revenues for the Infrastructure unit amount to Ps. 2,532 million for 2020.

Services Business Unit ("Alestra")

Revenues for 2020 were Ps. 9,824 million; 3% lower compared to 2019; due to 2% and 8% declines in revenues from the enterprise and government segments, respectively.

Enterprise segment. In 2020, revenues amounted to Ps. 7,834 million, a 2% decline compared to Ps. 8,018 million in 2019, due to a 7% decrease in Telecom services, partially mitigated by a 27% increase in IT revenues.

> ***Enterprise Telecom.*** In 2020, revenues totaled Ps. 6,476 million, compared to Ps. 6,950 million in 2019, a 7% decrease, mainly due to a 29% reduction in *voice* revenues due to its maturing technological cycle and by the impact in voice traffic due to remote work for many clients, and a 2% decrease in *data and internet* solutions. These declines were partially mitigated by a 2% increase in *managed networks* services, including a 9% increase in *collaboration* solutions due to the increasing demand in relation to remote work.
>
> ***Enterprise IT.*** In 2020, revenues totaled Ps. 1,358 million, compared to Ps. 1,068 million in 2019, a 27% increase driven by 40% and 29% increases in *cybersecurity* and *cloud* services, respectively, and 19% increase in *system integration*.

Government segment. In 2020, revenues totaled Ps. 1,990 million, compared to Ps. 2,159 million in 2019, an 8% decline, due to 11% and 5% decreases in Telecom and IT services, respectively, as the Company implemented adjustments in some services to accommodate the budget reductions in federal government entities.

> ***Government Telecom.*** In 2020, revenues amounted to Ps. 960 million, compared to Ps. 1,072 million in 2019, an 11% decrease, mainly due to a 20% decline in revenues from *managed networks* and 21% decline in *voice* due to decreases in fixed-to-mobile revenues, while *data and internet* revenues increased 11 %.

> ***Government IT.*** In 2020, IT revenues totaled Ps. 1,030 million, compared to Ps. 1,086 million in 2019, a 5% decrease, mainly due to lower revenues in *cloud* services, mitigated by increases in *system integration* revenues.

Gross Profit, Expenses, EBITDA and Operating Income

Gross profit. Gross profit is defined as revenues minus cost of revenues. In 2020, gross profit totaled Ps. 8,897 million, a 2% decrease compared to Ps. 9,044 million in 2019 *pro forma*, as a 10% decline in Services unit was partially mitigated by a 7% increase in Infrastructure Unit's gross profit.

Gross profit margin remained unchanged from 2019 to 2020 at 72%, as a result of lower margins in enterprise and government segments, partially mitigated by higher margins in the Infrastructure unit.

> ***Services Unit (Alestra).*** Gross profit totaled Ps. 4,290 million, a 10% decline compared to 2019, mainly due to a contraction in both revenues and margins in Telecom services.

> ***Infrastructure Unit (Axtel Networks).*** Gross profit was Ps. 4,607 million, a 7% increase versus 2019 *pro forma*, due to higher revenues, driven by a slight increase in margins mostly explained by the substitution of leased-links with owned-infrastructure.

Operating expenses. For 2020, operating expenses totaled Ps. 4,740 million, a 5% decrease compared to Ps. 5,015 million in 2019, or a 2% decrease *pro forma*, mainly due to declines in Alestra expenses.

> ***Services Unit (Alestra)*** Operating expenses decline 5% compared to 2019, due to declines in outsourcing and maintenance expenses, partially mitigated by an increase in personnel in relation to a one-time right-sizing organization provision.

> ***Infrastructure Unit (Axtel Networks)*** Operating expenses decreased 6% compared to 2019, or an 1% increase *pro forma*, due to increases in personnel expenses in relation to the aforementioned provision.

Other income (expenses). For 2020, other income represented Ps. 2,170 million, compared to Ps. 50 million in 2019, this figure includes Ps. 2,021 million from the data center transaction in the first quarter of 2020 and Ps. 90 million from the spectrum transaction in the second quarter of the same year.

EBITDA. EBITDA, defined as operating income plus depreciation and amortization and impairment of assets, amounted to Ps. 6,327 million in 2020, 49% higher compared to Ps. 4,236 million in 2019. However; adjusted for the data center transaction, EBITDA increased 2% versus 2019. 2020 margin reached 34.1%; slightly higher than 33.8% in 2019 *pro forma*.

> ***Services Unit (Alestra).*** (45% of Axtel's YTD EBITDA) In 2020, EBITDA totaled Ps. 1,879 million; 14% lower than 2019, due to decreases in revenues and contribution margins in both enterprise and government segments.

> ***Infrastructure Unit (Axtel Networks).*** (55% of Axtel's YTD EBITDA) In 2020, EBITDA totaled Ps. 2,427 million adjusted for the data center transaction; 18% higher than 2019 *pro forma*, due to increases in both revenues and contribution margins.

Depreciation, Amortization and Impairment of Assets. For 2020, depreciation and amortization were Ps. 3,555 million, 4% lower compared to Ps. 3,692 million in 2019.

Operating Income. For 2020, the Company recorded an operating income of Ps. 2,772 million compared to Ps. 774 million in 2019, an 258% increase, mainly due to a 49% increase in EBITDA previously described, including benefits of Ps. 2,021 million from the data center transaction and Ps. 90 million from the spectrum transaction, in addition to decreases in depreciation and amortization.

Comprehensive Financial Result, net. The comprehensive financing result reached Ps. 1,619 million, a 44% increase compared to Ps. 1,127 million in 2019. This increase is mainly due to a FX loss of Ps. 385 million, against a FX gain of Ps. 290 million from 2019; partially mitigated by a 6% reduction in interest expense.

Taxes. During 2020, income tax represented an expense of Ps. 793 million, compared to a tax benefit of Ps. 15 million in 2019. The difference is mainly due to a reduction in tax losses to be amortized used during the year, also the Company recognized an adjustment of Ps. 374 million to income tax from previous years, resulting from previous fiscal results modifications.

Discontinued Operations. In 2020, no discontinued operations were registered. In 2019, the Company recorded the results of the massive segment (which was divested) for Ps. 324 million as discontinued operations.

Net Income (Loss). In 2020, the Company recorded a net income of Ps. 361 million, compared to a net loss of Ps. 14 million registered in 2019. The variation is mainly explained by the benefits of the data center and spectrum transactions; partially mitigated by the higher comprehensive financing cost and taxes previously described.

Capital Investments. In 2020, capital investments in acquisitions of property, plant and equipment and intangibles totaled Ps. 2,144 million, 22% higher compared to Ps. 1,762 million in 2019. The 2020 figure includes an extraordinary investment of US $22 million related to the renovation of spectrum frequencies. Excluding this extraordinary investment, 68% of the investments were allocated to the Infrastructure Unit and 32% to the Services Unit.

Operating results for the years ended December 31, 2019 and December 31, 2018

Revenues

For the twelve-month period ended December 31, 2019, total revenues were Ps. 12,784 million, representing no change compared to Ps. 12,788 million in the same period of 2018, due to a 3% decrease in revenues in the Services Unit, mitigated by a 7% increase in revenues from Infrastructure Unit.

The Company's revenues are derived from the following business units:

Infrastructure Business Unit ("Axtel Networks")

2019 revenues totaled Ps. 5,170 million, a 7% increase compared to 2018, mainly due to a 13% increase in revenues from third-party wholesalers. Revenues coming from Alestra Services Unit represented 50% of total 2019 Infrastructure revenues. Without considering the revenues coming from Alestra, total revenues for the Infrastructure unit amount to Ps. 2,564 million for 2019.

Services Business Unit ("Alestra")

2019 revenues totaled Ps. 10,177 million; 3% lower compared to 2018, mainly due to a 13% decrease in government segment revenues.

Enterprise. For 2019, revenues amounted to Ps. 8,018 million, unchanged compared to Ps. 8,014 million in 2018, due to revenues in Telecom services remained flat, and a 3% increase in IT revenues.

> ***Enterprise Telecom.*** For 2019, revenues amounted to Ps. 6,950 million, unchanged compared to Ps. 6,982 million in 2018, mainly due to a 12% reduction in *voice* revenues due to its technological maturity cycle, mitigated by a 5% increase in *data and internet* solutions and a 2% increase in *managed network* services resulting from a good performance of *ethernet* and *collaboration* solutions.

> ***Enterprise IT.*** For 2019, IT revenues totaled Ps. 1,068 million, compared to Ps. 1,033 million in 2018, a 3% increase driven by a growth in *cybersecurity*, *cloud* and *system integration* services.

Government. Revenues for 2019 totaled Ps. 2,159 million, compared to Ps. 2,475 million in 2018, a 13% decline, derived from decreases of 9% and 17% in Telecom and IT services, respectively.

> ***Telecom Government.*** For 2019, revenues reached Ps. 1,072 million, compared to Ps. 1,174 million in 2018, a 9% decrease, mainly due to a 13% decline in Managed Network revenues due to the termination of VPN service contracts and a slowdown in non-recurring revenues. Voice revenues decreased 19% due to a decline in fixed-to-mobile revenues, while Data and Internet revenues increased 8% due to the growing demand for data.

> ***IT Government.*** For 2019, IT revenues totaled Ps. 1,086 million, compared to Ps. 1,302 million in 2018, a 17% decrease, mainly due to lower cybersecurity revenues due to the termination of an important contract with a federal entity at the end of 2018.

Gross Profit, Expenses, EBITDA and Operating Income

Gross Profit. Gross profit is defined as revenues minus cost of revenues. For 2019, gross profit was Ps. 9,431 million, representing no change compared to Ps. 9,431 million in 2018, positive performance of the enterprise segment was mitigated by a decline in government revenues.

Gross profit margin remained flat at 74%, as a result of lower margins in the enterprise segment associated to an increase in non-recurring enterprise revenues, which have lower margins, mitigated by an increase in government segment's margins related to lower non-recurring revenues.

Operating expenses. For 2019, operating expenses totaled Ps. 5,015 million, a 6% decrease compared to Ps. 5,320 million recorded in 2018, mainly due to reductions in personnel and maintenance expenses resulting from digital innovation initiatives and a Ps. 276 million benefit from the new accounting standard for long-term leases (IFRS 16).

Other income (expenses). For 2019, other income represented Ps. 50 million, 82% lower compared to Ps. 282 million in 2018, figure that includes Ps. 225 million benefit from the tower sale in 2018.

EBITDA. EBITDA, defined as operating income plus depreciation and amortization and impairment of assets, reached Ps. 4,466 million in 2019, 2% higher compared to Ps. 4,393 million in 2018. However, 2018 EBITDA includes other income from the tower sale of Ps. 225 million, adjusting for this benefit, EBITDA in 2019 increased 7% compared to 2018.

EBITDA margin increased from 32.6% (without the tower sale benefit) in 2018 to 34.9% in 2019, mostly driven by the digitization initiatives that have contributed to the reduction of operating expenses and to the benefit from the accounting standard IFRS 16.

Depreciation, Amortization and Impairment of Assets. Depreciation and amortization for 2019 amounted Ps. 3,692 million, representing no change compared to Ps. 3,697 million in 2018.

Operating Income. For 2019, the Company recorded an operating income of Ps. 774 million, compared to Ps. 695 million in 2018, a 11% increase, mainly due to the 2% increase in EBITDA previously described and the slight decrease of Ps. 5 million in depreciation and amortization.

Comprehensive Financial Result, net. The comprehensive financial cost totaled Ps. 1,127 million, a 32% decrease compared to Ps. 1,665 million in 2018. This decrease is mainly due to a 22% reduction in net interest expense related to partial prepayments of bank facilities for Ps. 4,350 million in December 2018 and Ps. 550 million in May 2019 and the payment of other liabilities for approximately Ps. 900 million. In addition, the FX gain in 2019 reached Ps. 291 million, 55% higher than the FX gain of Ps. 187 million in 2018.

Taxes. During 2019, the income tax represented a benefit of Ps. 15 million, compared to a tax expense of Ps. 37 million in the previous year. The variation is mainly due to inflation effects and the application of tax losses amortized during 2019 compared to the year 2018, creating a greater income tax benefit.

Discontinued Operations. For the years 2019 and 2018, the Company recorded the results of the mass market segment as discontinued operations, due to its divestment. The net income reached Ps. 324 million in 2019, which includes other revenues of Ps. 741 million from the sale of 18% of the mass market segment in May 2019; compared to Ps. 2,101 million in 2018, which includes other revenues of Ps. 2,786 million from the sale of 82% of the business in December 2018.

Net Income (Loss). The Company recorded a net loss of Ps. 14 million in 2019, compared to a net income of Ps. 1,095 million registered in 2018. This variation is mainly explained by the difference in discontinued operations related to the mass market segment divestment previously explained.

Capital investments. For the twelve-month period ended December 31, 2019, capital investment in property, systems and equipment and intangibles totaled Ps. 1,762 million, a 6% decrease compared to Ps. 1,871 million in 2018. Additionally, a benefit of Ps. 227 million was recorded in 2018 from the divestment of towers.

3.4.2) Financial Position as of December 31, 2020, and as of December 31, 2019

Assets. As of December 31, 2020, total assets amounted to Ps. 23,704 million compared to Ps. 24,331 million as of December 31, 2019, a decrease of Ps. 627 million, or 3%.

Cash and equivalents. As of December 31, 2020, cash and equivalents totaled Ps. 3,124 million compared to Ps. 858 million as of December 31, 2019, an increase of Ps. 2,266 million, or 264%, mainly due to the remaining sources from data centers divestment and from the short-term loans provision to strengthen the Company's liquidity.

Accounts Receivable. As of December 31, 2020, accounts receivable amounted to Ps. 1,795 million compared to Ps. 2,426 million as of December 31, 2019, a decrease of Ps. 631 million, or 26%.

Property, systems and equipment, net. As of December 31, 2020, property, systems and equipment, net, were Ps. 11,578 million compared to Ps. 12,964 million as of December 31, 2019. Without discounting accumulated depreciation, Property, systems and equipment totaled Ps. 50,791 million and Ps. 61,040 million as of December 31, 2020 and 2019, respectively.

Liabilities. As of December 31, 2020, total liabilities amount to Ps. 20,209 million compared to Ps. 20,920 million as of December 31, 2019, a decrease of Ps. 711 million or 3%.

Accounts payable. As of December 31, 2020, accounts payable amounted to Ps. 2,376 million compared to Ps. 2,898 million as of December 31, 2019, a decrease of Ps. 522 million, or 18%.

Debt. As of December 31, 2020, total debt including accrued interest, totaled Ps. 15,389 million, a Ps. 405 million increase compared to 2019, composed of Ps. 206 million in debt reduction and Ps. 611 million non-cash increase derived from a 6% depreciation of the Mexican peso against the US Dollar year-over-year. Debt reduction of Ps. 206 million is explained by (i) a decrease of Ps. 1,320 million related to the prepayments of the syndicated bank facility; (ii) an increase of Ps. 1,246 million in short-term bank loans; (iii) a decrease of Ps. 20 million in long-term debt; (iv) a decrease of Ps. 26 million in other loans and financial leases; (v) a Ps. 6 million decrease in accrued interest; and (vi) an Ps. 80 million decrease related to the new accounting standard for long-term leases (IFRS 16).

Stockholders' equity. As of December 31, 2020, the Company's stockholders' equity amounted to Ps. 3,495 million compared to Ps. 3,411 million as of December 31, 2019, an increase of Ps. 84 million or 2%. The capital stock totaled Ps. 464 million as of December 31, 2020 and 2019.

Cash flow

As of December 31, 2020, cash flow from operating activities reached Ps. 4,208 million, compared to a cash flow of Ps. 2,957 million as of December 31, 2019. This variation is mainly due to the benefits from the data center transaction.

As of December 31, 2020, the Company had generated (used) cash flows from investment activities for Ps. 729 million, compared to Ps. (528) million as of December 31, 2019. Investments in property, systems and equipment and intangibles were Ps. 1,002 million as of December 31, 2020 and Ps. (1,762) million as of December 31, 2019. The 2020 figure includes a benefit of Ps. 3,145 million from the data centers divestment, without considering this benefit, investments totaled Ps. (2,144) million in 2020.

As of December 31, 2020, the cash flow (used in) generated by financing activities was Ps. (2,601) million, compared to Ps. (3,821) million as of December 31, 2019.

As of December 31, 2020, the net debt to EBITDA ratio and the interest coverage ratio were 2.0x and 5.1x, respectively. Also, as of December 31, 2019, the net debt to EBITDA and the interest coverage ratios were 3.2x and 3.3x, respectively. *Pro forma* interest expenses are used for the calculation of interest coverage ratios.

Financial Position as of December 31, 2019 and as of December 31, 2018.

Assets.

As of December 31, 2019, total assets reached Ps. 24,331 million compared to Ps. 28,156 million as of December 31, 2018, a decrease of Ps. 3,825 million, or 14%.

Cash and equivalents. As of December 31, 2019, cash and equivalents totaled Ps. 858 million compared to Ps. 2,249 million as of December 31, 2018, a decrease of Ps. 1,391 million, or 62%. Cash balance at year-end 2018 includes an extraordinary Ps. 1,073 million that were paid during the first quarter of 2019 related to the value added tax and provisioned expenses related to the divestment of the mass market segment.

Accounts receivable. As of December 31, 2019, accounts receivable amounted to Ps. 2,426 million compared to Ps. 2,660 million as of December 31, 2018, a decrease of Ps. 234 million or 9%.

Property, systems and equipment, net. As of December 31, 2019, property, systems and equipment, net, totaled Ps. 12,964 million compared to Ps. 16,106 million as of December 31, 2018. Property, systems and equipment without deducting accumulated depreciation amounted to Ps. 61,040 million and Ps. 63,272 million as of December 31, 2019 and 2018, respectively.

Liabilities.

As of December 31, 2019, total liabilities reached Ps. 20,920 million, compared to Ps. 24,535 million as of December 31, 2018, a Ps. 3,615 million or 15% decrease, derived mainly from the prepayment of bank facilities and other liabilities.

Accounts payable. As of December 31, 2019, accounts payable totaled Ps. 2,898 million compared to Ps. 3,547 million as of December 31, 2018, a decrease of Ps. 649 million, or 18%.

Debt. As of December 31, 2019, total debt including accrued interest, totaled Ps. 14,984 million, a Ps. 855 million decrease composed of Ps. 426 million in debt reduction and Ps. 429 million non-cash decrease derived from a 4% appreciation of the Mexican peso against the US Dollar year-over-year. Debt reduction of Ps. 426 million is explained by (i) a decrease of Ps. 250 million related to the prepayments of the syndicated bank facility; (ii) a decrease of Ps. 300 million in short-term bank loans; (iii) a decrease of Ps. 320 million in other loans and financial leases; (iv) a Ps. 12 million decrease in accrued interest; and (v) a Ps. 457 million increase related to the new accounting standard for long-term leases (IFRS 16).

Stockholders' equity. As of December 31, 2019, equity totaled Ps. 3,411 million compared to Ps. 3,621 million as of December 31, 2018, a decrease of Ps. 210 million due to a reduction in accumulated results. The capital stock totaled Ps. 464 million as of December 31, 2019 and 2018.

Cash flow

As of December 31, 2019, cash flow from operating activities reached Ps. 2,957 million, compared to a cash flow of Ps. 5,411 million as of December 31, 2018. This variation is mainly due to the lower cash flow from the mass market segment since its divestment in December 2018 and May 2019.

As of December 31, 2019, the Company had generated (used) cash flows from investment activities for Ps. (528) million, compared to Ps. 2,376 million as of December 31, 2018. 2019 figure includes the benefit from the mass market segment sale for Ps. 1,150 million; 2018 figure includes the tower sale benefit for Ps. 227 million and mass market segment benefit for Ps. 4,466 million. Investments in property, systems and equipment and intangibles totaled Ps. 1,762 million as of December 31, 2019 and Ps. 1,871 million as of December 31, 2018.

As of December 31, 2019, the cash flow (used in) generated by financing activities was Ps. (3,821) million derived mainly from the prepayment of the bank facility for Ps. 550 million, leases for Ps. 638 million and other liabilities for Ps. 1,238 million, compared to Ps. (6,812) million as of December 31, 2018 derived mainly from the prepayment of the bank facility for Ps. 4,430 million.

As of December 31, 2019, the net debt to EBITDA ratio and the interest coverage ratio were 3.2x and 3.3x, respectively. Also, as of December 31, 2018, the net debt to EBITDA (including the tower sale benefit) and the interest coverage ratios were 3.0x and 3.2x, respectively. Pro forma interest expenses are used for the calculation of interest coverage ratios.

Liquidity and Capital Resources applicable for years 2020, 2019 and 2018

On November 9, 2017, Axtel issued Senior Notes in the international market and listed on the Irish Stock Exchange under a private offering under Rule 144A and Regulation S of the Securities Law from 1933 of the United States of America, for an amount of US$ 500 million, gross of issuance costs of US$7 million. The Senior Notes will accrue an annual coupon of 6.375% maturing in 7 years. The proceeds were mainly used to prepay the existing debt related to the syndicated loan signed on January 15, 2016, and various transaction costs and expenses.

In addition, on December 19, 2017 the Company signed a bilateral credit agreement with HSBC México, for an amount of $5,709 million pesos (equivalent to US$300 million) with a maturity of 5 years and with a variable interest rate including a margin on the TIIE rate applicable according to the leverage ratio between 1.875% and 3.25%. The proceeds obtained were used to prepay the remaining debt of the syndicated loan signed on January 15, 2016 previously described, denominated mainly in dollars. Afterwards, on February 22, 2018, the Company's syndicated its long-term facility with HSBC México, increasing the amount by Ps. 291 million, from Ps. 5,709 million to Ps. 6,000 million, maintaining the same conditions as the original agreement. The proceeds obtained from this additional loan were used to pay short-term debt of Ps. 400 million with HSBC México.

On December 17, 2018, the Company divested a significant portion of its Mass Market Segment. On December 21, 2018, with the proceedings obtained from the transaction, Axtel made a partial prepayment of the syndicated loan facility held with HSBC, as lead coordinator of the participating financial institutions, for Ps. 4,350 million; reducing the outstanding balance to Ps. 1,570 million as of December 31, 2018.

Additionally, Axtel has a bilateral loan with Export Development Canada for up to US$50 million, or its equivalent in pesos, due on June 1, 2021. As of December 31, 2020, US$47 million and Ps. 50 million were withdrawn. For the Peso-denominated portion, interests are payable monthly at TIIE28d + 1.375%; and for the USD-denominated portion, at Libor 1M + 1.625%.

Although the Company believes that it will be able to meet its debt obligations and finance its operating needs in the future with the operating cash flow, the Company may periodically seek to obtain additional financing in the capital market depending on market conditions and its financial needs. The Company will continue to focus its investments in fixed assets and manage its working capital, including the collection of its accounts receivable and the management of its accounts payable.

Tax Liabilities

At December 31, 2020, the Company did not have relevant tax liabilities.

Commitments regarding Capital Investments

At December 31, 2020, the Company did not have relevant capital investment commitments.

Non-registered Relevant Transactions

At December 31, 2020, Axtel did not have non-registered relevant transactions in the Balance Sheet or the Income Statement. Nevertheless, related to the contingencies derived from interconnection disagreements with mobile carriers, the Company and its counselors consider that the obtained resolutions in favor of the Company will prevail, resulting in no provisions associated to such contingencies. *2.13) Judicial, administrative and other legal proceedings.*

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, 6.13 and 6.78 times as of December 31, 2020, 2019 and 2018, 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:

(in thousands of pesos)		**Al 31 de diciembre de**	
	2020	**2019**	**2018**
Cash and cash equivalents	$ 3,123,955	$ 857,742	$ 2,249,155
Restricted cash	261,827	-	93,908
Financial assets at amortized cost:			
Trade and other accounts receivable	2,844,473	3,310,000	2,908,133
Financial assets at fair value with changes through profit or loss [1]			
Financial instruments (zero strike call)	-	92,673	129,075
Derivative Financial Instruments		-	23,591
Total financial assets	$ 6,230,255	$ 4,260,415	$ 5,403,862
Financial liabilities at amortized cost:			
Current debt	$ 1,609,301	$ 131,632	$ 465,828
Lease liability	627,024	866,098	-
Trade payables, related parties and sundry creditors	2,376,195	2,905,871	5,412,913
Non-current debt	13,034,985	13,836,310	15,156,918

Other non-current accounts payable	-	703,348	4,033
Financial liabilities measured at fair value with changes in results:			
Derivative financial instruments (1)	207,197	143,712	39,258
Total financial liabilities	$17,854,702	$ 18,586,971	$21,078,950

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

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, 2019 and 2018.

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

(in thousands of pesos)	**As of December 31, 2020**		**As of December 31, 2019**		**As of December 31, 2018**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial liabilities:						
Debt (*)	$14,655,875	$14,999,100	$14,006,129	$14,737,276	$14,974,979	$14,212,680
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, 2019 and 2018 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 and 2019:

	USD (translated to thousands of MXP)	
Financial assets	$ 3,075,425	$ 701,548
Financial liabilities	(12,217,941)	(11,019,701)
Foreign exchange monetary position	$ (9,142,516)	$(10,318,153)

During 2020, 2019 and 2018, 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

As of December 31, 2019 and 2018, the Company had Over the Counter (OTC) transaction agreements with Bank of America Merrill Lynch (BAML) and Corporativo GBM, S. A. B. de C. V. (GBM), denominated "Zero Strike Call" or options, at a price closely resembling zero. The asset underlying these instruments is the market value of Axtel's CPOs. The contracts signed prior to October 2016 can only be settled in cash. As from that date, the term of the contracts yet to be settled was extended and as a result of this negotiation, the settlement method can be in cash or in shares, as decided by the Company. The original term of these contracts is 6 months and can be extended by mutual agreement between the parties; however, as this is an American type option, the Company can exercise it at any given time prior to the date of maturity.

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

Where:
Number of options = defined in the contract
Right of option = defined as 1 "share" per option, defining "share" as Bloomberg Code AxtelCPO MM.
Reference price = "The price per share that GBM receives upon settling the position of the hedges thereof, under commercially reasonable terms, discounting commissions and taxes".
Exercise price = 0.000001 pesos

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

As of December 31, 2020, 2019 and 2018, the lending position of the options represents the maximum amount of its credit exposure, as showed below:

(in thousands of pesos) Counterparty	Notional amount	Agreement beginning date	Type of Underlying asset	Fair Value 2020	2019	2018
Bank of America Merrill Lynch[(1)]	30,384,700	2010 & 2009	CPO's Axtel	$ -	92,673	90,243
Corporativo GBM, S.A.B. de C.V. [(2)]	13,074,982	2015 & 2014	CPO's Axtel	-	-	38,832
Total				$ -	92,673	129,075

(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.

(2) The financial instrument with Corporativo GBM was exercised during the months of May and June 2019.

Derivative financial instruments

As of December 31, 2020, 2019 and 2018, 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:

(in thousands of pesos)

Characteristics	**2020**	**2019**	**2018**
Currency	MXN	MXN	MXN
Notional	$3,380,000	$3,380,000	$3,380,000
Coupon	TIIE28	TIIE28	TIIE28
Coupon	8.355%	8.355%	8.355%
Maturity	15-Dec-2022	15-Dec-2022	15-Dec-2022
Swap book value	$(207,198)	$(137,177)	$23,591
Change in the fair value of the swap to measure ineffectiveness	$(205,774)	$(135,329)	$24,477
Reclassification from OCI to income	$5,784	$653	$214
Balance recognized in OCI net of reclassifications	$201,414	$136,524	$(23,804)
Ineffectiveness recognized in income	-	-	-
Change in the fair value of the hedged item to measure ineffectiveness	$210,604	$147,478	$(25,031)
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, 2019 and 2018, the results of the effectiveness of this hedge confirms that the hedge relationship is highly effective, given that the changes in the fair value and cash flows of the hedged item are compensated in the range of effectiveness established by the Company. The prospective effectiveness test resulted in 96.7%, 100% and 99% in 2020, 2019 and 2018, 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%, 93% and 95% in 2020, 2019 and 2018, 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 and 2018, 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:

(in thousands of pesos)

Características	**2019**	**2018**
Currency	USD	USD
Total notional	US$15,900	US$93,868
Average strike	19.6560 MXN/USD	20.54 MXN/USD
Maturity	12 mayo 2020	enero-julio 2019
Forward's book value	$(6,535)	$(39,258)
Change in the fair value of the forwards to measure ineffectiveness	$(6,535)	$(39,258)
Reclassification from OCI to income	$4,043	$ 4,316
Balance recognized in OCI net of reclassifications	$2,492	$35,762
Ineffectiveness recognized in income	-	-
Change in the fair value of the hedged item to measure ineffectiveness	$6,535	$39,258
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 and 2018, 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 and 46% in 2018. 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 and 2018, no ineffectiveness was recognized in gain or loss.

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 thousand and $(45,413) thousand, respectively.

a) 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 thousand and $1,208,739 thousand 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.

b) 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
December 31, 2019			
Current debt	$ 123,847	$ -	$ -
Trade payable, related parties and creditors	7,938,944	-	-
Derivative financial instruments	39,258	-	-
Non-current debt	-	2,275,469	12,699,510
Lease liability	341,981	398,133	-
Non-accrued interest payable	1,222,225	4,410,428	1,629,496

The Company expects to meet its obligations with the cash flows provided by operations and/or cash flows provided by its main shareholders. Furthermore, the Company has access to credit lines as mentioned in Note 17 of Audited Financial Statements.

As of December 31, 2020, the Company has short-term uncommitted, unused lines of credit for approximately $590,000 thousand (US$30 million). Additionally, as of December 31, 2020, Axtel has committed credit lines for US$ 50 million in the short term, of which $987,589 thousand (US$ 49.5 million) has been used and $9,846 thousand (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, 2019 and 2018:

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

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

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.

3.4.3) Treasury Policies

Establishes the general framework of the Treasury that allows planning and adequate management of the necessary financial resources so that the Company can develop its operating and expansion plans and maintain effective relations with financial institutions and investors.

General Guidelines

- Cash Reserves. - The Treasury Department will be responsible for having sufficient Cash Reserves to ensure the liquidity and solvency necessary to comply with the commitments related to the normal development of operations, those derived from capital investments and the financial obligations.
- Risk-to-return ratio. - Treasury activities should be focused on optimizing the risk-return ratio of the company's financial assets, in compliance with the guidelines defined in ALFA's Corporate Cash Management Policy and the obligations established in the financing agreements.
- Risk Management. - The Treasury Department will be responsible for managing the insurance and sureties as well as the financial derivative instruments covering the financial position of the company in accordance with ALFA's Risk Management policy.
- Cash flow planning. - The Treasury department will have the responsibility to plan and regulate the available financial cash flow, based on the analysis of Cash Flow, the scheduling of expenditures, projected revenues, and available financing alternatives.
- Payment to suppliers. - The Treasury Department will be responsible for planning and managing the Company's Cash Reserves, to honor the payment terms agreed with suppliers, subject to receipt of the invoice with the established requirements by the company and according to the financial resources available.
- Contingency Measures. - If Cash Reserves do not ensure the minimum level of liquidity required to comply with the company's commitments, the Treasury and Supply Chain Division will be responsible for submitting a plan to the Finance Executive Department to restore the minimum level.
- Financing. - The Corporate Finance area will have the responsibility to anticipate, analyze, obtain when applicable and manage the lines of credit or financing required for the development of the company's operation and expansion plans, looking to optimize terms, conditions and obligations established in the financing contracts. In compliance with ALFA's Financing policy, it is the responsibility of ALFA's Treasury and Planning Department to authorize, negotiate and hire the financing of the corporation in a centralized manner. Axtel's Executive Finance Director, through the Investor Relations and Corporate Finance Division, will be responsible for (i) contracting short-term financing, (ii) contracting operating loans such as leases, factoring lines and vendor financing and (iii) manage long-term credit lines.
- Financing Administration. - The Corporate Finance area will be responsible for managing the administration of all financing, which includes monitoring compliance with the obligations stipulated in the credit agreements, ensuring the timely payment of principal and interest, to process and send the periodic Certificates of Compliance, as well as the proper control of the balances and documentation related to the financing.

- Waiver. - If a waiver for non-compliance is required, the Corporate Financing area, with authorization from the Executive Finance Department, must initiate the application process in coordination with ALFA's Treasury and Planning Department and Legal Department.
- Relationships with Financial Institutions and Investors. - The Corporate Finance and Investor Relations Department, in coordination with the Finance Executive Department and Alfa's Treasury and Planning and Investor Relations, must develop and maintain an effective relationship with institutions, investors and financial authorities to facilitate access to external financial resources and ensure timely compliance with regulatory reporting requirements.
- Authorizations. - Only those officers of the company appointed by the General Shareholders' Meeting, filed through a Public Notary, or persons empowered in the Treasury Department by such attorneys, may perform the following operations in the name of the company:
    - Grant or subscribe for credit instruments
    - Guarantee, negotiate, or discount credit securities
    - Open, operate and close investment and/or checking accounts in the normal course of business operations
    - Grant bonds, mortgages or any other general or specific guarantee, or constitute any kind of right for third parties.

General Guidelines for Expenses Control and Cash Management

- Minimum Cash Reserves. - The company must have the Cash Reserves necessary to ensure the daily financial operation of the company, considering contingencies. The Cash Reserves must maintain a daily established minimum balance.
- Concentration of collection. - The Treasury Department will be responsible for transferring to the concentrating accounts, daily or whenever deemed necessary, the income received in the accounts receivable, to optimize the use of available financial resources.
- Dispersion of funds. - The Treasury Department will be responsible for efficiently managing the Cash Flow available in the concentrating accounts, timely dispersing the required funds to the paying accounts to fulfill the company's acquired paying commitments.
- Payment to suppliers. - The Treasury Department will be responsible for planning and managing the Company's Cash Reserves, to honor the agreed payment terms with suppliers according to the liquidity situation. That is, to maintain an adequate liquidity that avoids any situation that jeopardizes the continuity of the operation of the company; which will be a priority of the Treasury, even over terms of payment agreed with suppliers. The minimum standard payment condition will be 90 calendar days after the date of the invoice reception, in justified situations the term will be based on the date of the invoice.
- Special conditions of payment to suppliers. - The options of prompt payment, via factoring or extended payments proposed by suppliers will be evaluated jointly by the Treasury and Supply Departments. Any modification to the standard payment terms or terms agreed upon with suppliers, as well as the payment of advances, must be authorized by the Corporate Finance and Investor Relations Director as well as the Supply Director; and it must be documented in the record of the purchase.
- Investment of Surplus. - The Treasury will be responsible for the investment of surplus resources, optimizing the risk-return ratio and evaluating characteristics of term, rating and bursatility, as well as taking care of reciprocity with the counterparts that support the relationship with the company. The investment of the surplus resources must comply with the guidelines defined in ALFA's Corporate Cash Management Policy and the obligations established in the current financing agreements (Covenants).
- Foreign currencies exchange. - Operations in the purchase or sale of foreign currency should first be attempted with Alfa subsidiaries. If there is no subsidiary to operate as a counterparty then it will be proceeded with whichever financial institution offers the best available alternative in terms of price, security and timely delivery of resources. Before closing a foreign currency exchange purchase or sale operation, it

must be listed with at least two financial institutions that comply with the current requirements established by the Corporate Cash Management Policy of Alfa, and the operation must be documented in the Sale-Purchase of Currency format.

- General Funds. - The Treasury Department will be responsible for regulating the management of the cash funds or other securities held and managed in the general savings accounts of the company through appropriate internal controls. This will allow the funds to be properly insured and the disbursements made in accordance with the established limits, accounted for in a clear and timely manner by the Accounts Payable area.
- Operation of petty cash fund or fixed funds. - The Treasury Department will have the responsibility to review the proper use, apply periodic bills and endorsements in the areas where the treasury has authority; in the places where the treasury has no authority, the responsible will be the administrative coordinator of such area or of the Internal Audit Department of the company. Treasury will have the power to authorize, reject or cancel the petty funds or fixed funds assigned to employees of the company, in order to ensure the optimal use of resources.
- Bank commissions. - The Treasury Department will have the responsibility to keep control of the bank fees charged to the company derived from the administration of the cash, establishing a continuous monitoring and seeking to optimize the costs generated by the banking services except for commissions which will be the responsibility of the area of income assurance and payment application.
- Bank floating. The Treasury Department will have the responsibility of maintaining the minimum balance necessary of bank floating in the checking accounts, to optimize the use of available financial resources.
- Bank Accounts. - The Treasury Department will be responsible for controlling the opening of bank accounts and keeping its management, to maintain the structure of accounts more adequate to the needs of the financial operation of the company and seeking the optimization of the available monetary resources.
- Authorizations. - Only those officers of the company appointed by the General Shareholders' Meeting, filed through a Notary Public, or persons empowered in the Treasury Department by such attorneys, may perform banking or cash management operations on behalf of the company.

3.4.4) Internal Controls applicable to years 2020, 2019 and 2018

The Company, through its internal control department, has established adequate control policies and procedures that provide reasonable assure that all operations are carried out, accounted for and reported in accordance with the guidelines established by its management, in accordance with IFRS and its application criteria. The Company considers that it's leading technology platform, along with its organizational structure, provide the necessary tools to apply such policies and procedures correctly. Likewise, the Company has established and periodically applies internal auditing procedures to its different operating processes.

The Company's internal control is governed by several policies, procedures and locks (automated and manual), ranging from the delivery of services provided by the Company, to the way in which goods and services required by the Company are acquired. The following describe some of the Company's internal policies:

- ***Expenses and Procurement Policies***. The objective of this policy is to ensure that all costs or expenses incurred are consistent with the Company's interest and strategies, and delegates its authorization to the executive level. This policy includes from the budget allocation that contemplates the delivery in any concept, until the delivery of the good or service to be acquired, passing through a series of filters such as: the selection of a determined supplier, payment term agreed upon, the form of payment and its execution. The expense and investment budget is authorized in the corporate offices of the Company. The expense budget considers the concept of expenses, the form of requesting for authorization, as well as the levels of the executive personnel that should authorize. In the case of purchase of fixed assets, regardless of the amount, this amount will be authorized upon delivery of a capital investment authorization request (SAICs for its Spanish translation). Any project that is not within the original budget will have to be authorized by Executive management level of the Company.

- ***Accounting Policy***. It contemplates the general guidelines to ensure the correct and timely recording of quantitative transactions and of the indispensable estimates for the preparation of the Company's financial statements, attached and in accordance with IFRS.

- ***Uncollectable Reserve Accounts Policy.*** The objective of this policy is to supervise the collection of the portfolio of accounts to acquire and to establish the provisions required accurately. This policy establishes the necessary requirements for the determination of the provision of uncollectable accounts and informs the accounting records to be carried out by means of certain provisions and the tax treatment to be applied at the time of the cancellation of the uncollectable accounts.

- ***Treasury and Financing Policy.*** Policy intended to plan and properly manage the necessary financial resources, so that the company may be able to develop its operation and expansion plans and maintain effective relations with financial institutions and investors.

3.5) 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.

4) MANAGEMENT

4.1) External Auditors

The Company's independent auditors as of January 1, 2017 are Galaz Yamazaki Ruíz Urquiza, S.C. miembro de Deloitte Touche Tohmatsu Limited ("Deloitte"), whose offices are located at Av. Juarez 1102 Piso 40 Centro 64000 Monterrey, Nuevo León, México. The Company's external auditors were appointed by the Company's Board of Directors exercising its powers of legal representation.

The last three years the external auditors have issued favorable opinions.

For years 2017, 2018, 2019 and 2020, the Certified Public Accountants who, as partner of Galaz Yamazaki Ruíz Urquiza, S.C., has signed the opinion issued by the external auditor is Héctor García Garza.

The Audit and Corporate Practices Committee approves the annual hiring of the independent external auditor. The external auditor presents the Company each year a work plan that is reviewed and approved by the Company, and sometimes complemented with specific activities that Management or the Board require. The Company evaluates annually that its external auditor is among the four largest audit firms, that is not part of a situation that could question its impartiality, prestige or experience of their activities and that its economic requirements are within the market, among others. Once the Company has performed this evaluation and knows the work plan, the proposal is then submitted to the Audit and Corporate Practices Committee for their final approval.

Fees paid by other professional services during 2020 reached Ps. 6.4 million. The total amount paid to the external auditors have been in market terms and do not exceed 10% of the Company's total revenue.

4.2) Certain Relationships and Related Transactions

The transactions with related parties for the years ended December 31, 2020, 2019 and 2018, were the following:

(in thousands)			December 31, 2020 Loans received from related parties				
	Accounts receivable	Accounts payable	Amount	Interest	Currency	Expiration date	Interest rate
Affiliates	8,202	480	-	-	-	-	-
Total	$ 8,202	$ 480	-	-			

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

(in thousands)			December 31, 2018 Loans received from related parties				
	Accounts receivable	**Accounts payable**	**Amount**	**Interest**	**Currency**	**Expiration date**	**Interest rate**
Holding company	$ -	$ 4,924					N/A
Holding company	-	-	$ 424,561	$ 5,944	USD	15/07/19	3%
Holding company [1]	-	-	287,300	56,780	MXP	28/02/19	TIIE + 2.25%
Holding company [1]	-	-	287,300	56,780	MXP	28/02/19	TIIE + 2.25%
Holding company [1]	-	-	204,574	40,434	USD	28/02/19	TIIE + 2.25%
Holding company [1]	-	-	204,574	40,434	USD	28/02/19	TIIE + 2.25%
Holding company	-	-	219,600	22,752	MXP	28/02/19	TIIE + 2.25%
Affiliates	55,105	9,318	4,033	585	USD		LIBOR 3M +2.75%
Total	$55,105	$14,242	$1,631,942	$223,709			

(1) Indemnification.

Transactions with related parties for the years ended December 31, 2020, 2019 and 2018, which were carried out in terms similar to those of arm's-length transactions with independent third parties, were as follows:

(in thousands)	**Income**	**Costs and expenses**	
2020	**Telecom Services**	**Interests**	**Others**
Tenedora	$ -	$ 10,625	$ -
Afiliadas	170, 756	-	9,480
Total	$ 170, 756	$ 10,625	$ 9,480
2019	**Telecom Services**	**Interests**	**Others**
Holding company	$ -	$ -	$84,935
Affiliates	165,087	5,803	-
Total	$ 165,087	$ 5,803	$84,935
2018	**Telecom Services**	**Interests**	**Others**
Holding company	$ -	$(136,976)	$ -
Affiliates	169,445	(281)	(35,695)
Total	$ 169,445	$(137,257)	$(35,695)

For the year ended December 31, 2020, compensation and benefits paid to the Company's main officers totaled $116,791 thousand ($106,080 thousand in 2019 and $97,139 thousand in 2018), 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.

4.3) Senior Management and Shareholders

Pursuant to the Company's bylaws and Mexican law, the Board of Directors is composed of 12 regular members and 3 alternate directors, seven board members are independent pursuant to Mexican Securities Market Law. The Audit and Corporate Practices Committee is currently comprised of three regular independent members.

The following presents updated information regarding the members of the Board of Directors and executive officers:

Name	Position	Ownership percentage
Álvaro Fernández Garza(1)	Co-Chairman	
Tomás Milmo Santos(1)	Co-Chairman	5.0%
Eduardo Alberto Escalante Castillo	Chief Executive Officer	
Adrián Cuadros Gutiérrez	Executive Director Government Segment	
Adrián G. de los Santos Escobedo	Chief Financial Officer	
Andrés E. Cordovez Ferretto	Executive Director Infrastructure and Operations	
Bernardo García Reynoso	Executive Director Planning and Development	
Carlos G. Buchanan Ortega	Executive Director Human Capital	
Raúl de Jesús Ortega Ibarra	Executive Director Legal and Regulatory	
Ricardo J. Hinojosa González	Executive Director Enterprise Segment	
Alejandro Miguel Elizondo Barragán(A)	Independent Board member	
Eduardo Alberto Escalante Castillo(1).........	Board member	
Francisco Garza Egloff	Independent Board member	
Juan Ignacio Garza Herrera.......................	Independent Board member	
Armando Garza Sada(1)	Board member	
Fernando Ángel González Olivieri.............	Independent Board member	
Patricio Jiménez Barrera(1)........................	Board member	
Enrique Meyer Guzmán (A)........................	Independent Board member	
Ricardo Saldívar Escajadillo (A)	Independent Board member	
Alberto Santos Boesch	Independent Board member	
José Antonio González Flores(1)	Alternate Director	
Thomas Lorenzo Milmo Zambrano(1).........	Alternate Director	3.9%
Paulino José Rodríguez Mendívil(1)	Alternate Director	

(1) Patrimonial Director.

(A) Member of Audit and Corporate Practices Committee.

* Note: Axtel states that, to the best of its knowledge and belief, no relevant director or director of the Company owns more than 1% of its capital, except for those mentioned in this Annual Report.

The aforementioned Board Members were appointed at the Annual General Shareholders Meeting held on March 5, 2021. Pursuant to the Company's bylaws, the members of the Board of Directors remain in office for thirty days after their resignation or conclusion of the term to which they were appointed unless replaced.

Set forth below is a summary of the experience, functions and areas of expertise of the main officers, board members and alternate board members of Axtel. The business address for each of our board members, alternate board members and senior management is Av. Munich 175, Col. Cuauhtémoc, San Nicolás de los Garza, N.L., México, C.P. 66240.

Co-Chairmen:

Álvaro Fernández Garza. Board Member and Co-Chairman of the Board of Directors of Axtel since February 2016. CEO of ALFA, S.A.B. de C.V. Chairman of the Board of the Universidad de Monterrey (UDEM). Member of the Boards of Grupo Citibanamex, Cydsa, Grupo Aeroportuario del Pacífico and Vitro. Mr. Fernández Garza holds a degree in Economics from Notre Dame University and Master's degrees from ITESM and Georgetown University.

Tomás Milmo Santos. Board Member and Co-Chairman of the Board of Directors of Axtel since February 2016. He was the company's CEO from 1994 to February 2016, has been a Director since 1994 and was Chairman of the Board of Directors from 2003 to February 2016. He is a member of the Board of Directors of CEMEX, ITESM, and Promotora Ambiental. He is also Chairman of the Board of Tec Salud. Mr. Milmo Santos graduated with a degree in Business Economics from Stanford University.

Board members:

Eduardo Alberto Escalante Castillo. Axtel Board Member since February 2019. CFO of ALFA, S.A.B. de C.V. and CEO of Axtel since January 2021. He holds a degree in Electronic and Communications Engineering from ITESM and a Master's degree from Stanford University.

Armando Garza Sada. Axtel Board Member since February 2016. Chairman of the Board of Directors of ALFA, S.A.B. de C.V. Chairman of the Boards of Directors of Alpek and Nemak. Member of the Boards of BBVA Mexico, CEMEX, Grupo Lamosa and Liverpool. Mr. Garza Sada holds a Bachelor's degree from the Massachusetts Institute of Technology and an M.B.A. from Stanford University.

Patricio Jiménez Barrera. Axtel Board Member since February 2018. Chairman of Abstrix, S.A. de C.V. Member of the Boards of Directors of Grupo Tredec, S.A. de C.V. and Jumbocel, S.A. de C.V. Mr. Jiménez Barrera is a CPA and holds a degree from ITESM.

Independent Board members:

***Alejandro Miguel Elizondo Barragán**.* Axtel Board Member since February 2016. He is a member of the Board of Directors of Arca Continental and Stiva Group. He holds a degree in Mechanical and Electrical Engineering from ITESM and an M.B.A. from Harvard University.

Francisco Garza Egloff. Axtel Board Member since February 2016. Member of the Board of Arca Continental, Grupo Industrial Saltillo, Grupo AlEn, Alpek, Grupo Financiero Banregio, Ovnvier, RAGASA and Proeza, as well as Member Board of the School of Engineering and Sciences of ITESM, the Coca-Cola Foundation, the "Rosa de los Cuatro Vientos" Cultural Center, Ser y Crecer Foundation, President of the UANL Foundation and Caballero de San Miguel Arcángel of CAMSVI. He is also Vice president of Confederación de Cámaras Industriales de México (CONCAMIN). Mr. Garza Egloff holds a degree in Chemical Engineering from ITESM, with studies in Senior Management from IPADE.

Juan Ignacio Garza Herrera. Axtel Board Member since February 2016. CEO of Xignux. He was President of the COMCE Noreste and has been a Board Member of Xignux, Consejo Mexicano de Hombres de Negocios (CMHN), BBVA Mexico (Regional Noreste), UDEM, ICONN, Cleber and of the Instituto Nuevo Amanecer, A.B.P. He was President of Cámara de la Industria de Transformación de Nuevo León. Mr. Garza Herrera holds a degree in Mechanical Engineering from ITESM, and an M.B.A. from the University of San Francisco.

Fernando Ángel González Olivieri. Axtel Board Member since February 2016. CEO of CEMEX. Member of the Boards of Directors of Grupo Cementos de Chihuahua and Tec Milenio University. He holds a bachelor's degree and an M.B.A. from ITESM.

Enrique Meyer Guzmán. Axtel Board Member since February 2016. Chairman of the Board and CEO of Grupo CEMIX. Member of the Board of UDEM, Bancomer, Banamex, Silica Desarrollo, S.A., Fondo Emblem, Beliveo and Former Chairman of the Board of Club Industrial. He holds an Industrial and Systems Engineering degree from ITESM and an M.B.A. from Stanford University.

Ricardo Saldívar Escajadillo. Axtel Board Member since February 2016. Private investor. Member of the Boards of FEMSA, Tecnológico de Monterrey and Grupo AlEn. Former President and CEO of The Home Depot Mexico, a position he held for eighteen years until June 2017 when he retired. Prior to that, he worked in various ALFA group companies for nearly 20 years. Mr. Saldívar Escajadillo holds a degree in Mechanical Engineering and Administration from ITESM and a Master of Science degree in Systems Engineering from Georgia Tech, with studies in Senior Management from IPADE.

Alberto Santos Boesch. Axtel Board Member since February 2016. Chairman and CEO of Ingenios Santos, S.A. de C.V. Member of the Boards of GRUMA, BBVA Mexico, Interpuerto de Monterrey, Comité del Desarrollo del ITESM, Instituto Nuevo Amanecer, Renace, Red de Filantropía de Egresados y Amigos del Tec, Comité del Consejo Consultivo de la Facultad de Ciencias Políticas y Administración Públicas de la UANL and Unidos por el Arte contra el Cáncer Infantil (UNAC). Mr. Santos Boesch holds a degree in International Studies from UDEM.

Alternate Directors:

José Antonio Gonzáles Flores. Alternate Board Member of Axtel since February 2016. Executive Vice President of Strategic Planning and Business Development of CEMEX. He has held several executive positions in CEMEX in the Finance, Strategic Planning, and Corporate Communications and Public Affairs areas, he was CFO of CEMEX from 2014 to 2020. Member of the Board of Grupo Cementos de Chihuahua. Mr. Gonzáles Flores holds an Industrial and Systems Engineering degree from ITESM, and an M.B.A. from Stanford University.

Thomas Lorenzo Milmo Zambrano. Alternate Board Member of Axtel since February 2018. He was co-founder and Chairman of the Board of Directors of Grupo Javer and Incasa. He was Chairman of the Board of Directors and CEO of Carbonifera San Patricio and Carbón Industrial, as well as a member of the Board of Directors of CEMEX until 1996.

Paulino José Rodríguez Mendívil. Alternate Board Member of Axtel since February 2019. Director of Human Capital of ALFA, S.A.B. de C.V. Member of the Board of Directors of Campofrío Food Group, COPARMEX and the Business Coordination Board. He holds an Industrial and Systems Engineering degree and a Master’s degree in Energy Techniques, both from Universidad del País Vasco, Spain.

Senior Management team:

Eduardo Alberto Escalante Castillo. Chief Executive Officer. Appointed the Finance Director of ALFA in 2018. Prior to his current position, he was the Administrative and Finance Director for Alpek. He has held various administrative positions in ALFA, the controlling company, and in the subsidiaries: Hylsamex, Sigma Alimentos, Alestra and Alpek. He was the CEO of Colombin Bel, CEO of the Caprolactam and Fertilizers Division of Alpek and CEO of AOL México. Degree in Electronics and Communications from Tecnológico de Monterrey (ITESM) and a Master's from the University of Stanford. Former Chairman of the National Association of the Chemical Industry (ANIQ) in Mexico.

Carlos Guillermo Buchanan Ortega. Executive Director Human Capital. Former Managing Partner of B&S Consultores and Human Resources Director at Alestra. He served as the Human Resources Director at Telefónica Movistar, Commercial Banking at Grupo Financiero Bancomer, Bimbo, Black & Decker and Prolec G.E. Served as the Executive Chairman of ERIAC Capital Humano and is now a member of the board. He is a Curriculum Consultant at UDEM, an Employability Board Member at Tec Milenio, a Board Member at Movimiento Congruencia AC, a member of the Study Group and guest Monitor for the D1, D2 and Medex programs at the IPADE. He has experience as a speaker and lecturer at UDEM, ITESM and ITESO. Bachelor's Degree in Psychology with a Master's in Organizational Development and Administration from UDEM, as well as postgraduate studies at IPADE and Kellogg University.

Andrés Eduardo Cordovez Ferretto. Executive Director Infrastructure and Operations. Served as the Executive Director of Technology and Operations in Axtel from October 2013 to January 2016. Before holding this position, he was the Director of Information Technologies and Processes. In his 27 years of professional experience he has held various executive positions in a variety of domestic and multi-national companies in the telecommunications, financial and services industries, being responsible for different functions such as technology, innovation, operations, customer service and sales. He has a Bachelor's Degree in Computer Systems Engineering from ITESM and obtained a certificate degree in Senior Management from IPADE. He has completed executive development courses at the universities of Wharton, Stanford and the London Business School.

Adrián Cuadros Gutiérrez. Executive Director Government Segment. Served as the Executive Director of IT Solutions (February 2016 to December 2017). He was part of Alestra since February 1996, where he served as the Director of Engineering, Chief Technology Officer, Director of Government Sales and Director of Sales of IT Services. He also formed part of AT&T de México, where he held various positions from July 1993 to January 1996. Degree in Electronic and Communications Engineering from ITESM, with a Master's in Administration from the same institution. Completed the Executive Program at IPADE, the University of Stanford and the London Business School. In September 2018, he completed the Board Member Training Program at EGADE Business School.

Adrián de los Santos Escobedo. Chief Financial Officer. Served as the Acting Director of the Finance Office. Held the position of Corporate Finance and Investor Relations Director at Axtel until February 15th, 2017. Prior to joining Axtel in April 2016, he worked at Operadora de Bolsa y Banca Serfin (now Santander México) and Standard Chartered Bank, where he held positions in Institutional and Corporate Banking in the cities of Monterrey, London and New York. Bachelor's Degree in Business Administration from ITESM, with a Master's in Finance from the Carroll School of Management of Boston College.

Bernardo García Reynoso. Executive Director Planning and Development. Joined Alfa in 1985 and joined Alestra as of its founding in 1996, holding various positions in the Sales, Marketing, Strategic Alliances, Administration and Human Resources areas. He served as the Finance Director for Alestra for the seven years prior to the merger, upon which he took over the position of Executive Director of Planning and Development for Axtel in 2016. Degree in Industrial and Systems Engineering from ITESM, with a Master's in International Commerce from Universidad de Monterrey and a Master's in Business Administration from the International Institute for Management Development (IMD) of Luasanne, Switzerland.

Ricardo J. Hinojosa González. Executive Director Enterprise Segment. Responsible for the strategy, development of solutions, implementation of alliances, promotion, commercialization and profitability of the Alestra brand. With over 32 years of experience, he has held various executive positions in the Sales, Marketing, Managed Services and Planning areas. Bachelor's Degree in Administrative Computer System from ITESM, with a Master's in Business Administration with a specialization in Marketing from the University of California in Los Angeles. He has completed specialized management studies at IPADE, Wharton University and Tuck. He also is a recurring speaker at various national and international forums.

Raúl Ortega Ibarra. Executive Director Legal and Regulatory. Served as the Director of Government and Legal Relationships for Alestra beginning in 1996, where he later served as the director of International Business and Communications from 2001 to 2007. Former Director of Regulatory Matters of AT&T Corp. in Mexico and former leader and founder of the representative office for Mexican business bodies in Washington, D.C. Graduated from Universidad Iberoamericana, with executive studies in Political Economics and Management from the University of Stanford.

A description of the relationship of some of the members of the Board of Directors and some of the Executive officers of the Company is presented as follows:

- Álvaro Fernandez Garza and Armando Garza Sada are cousins.

- Tomás Milmo Santos is the son of Thomas Lorenzo Milmo Zambrano, cousin of Alberto Santos Boesch and Patricio Jiménez Barrera's brother-in-law.

Axtel declares that, to the best of its knowledge, no director or senior officer of the Company owns more than 1% of its capital, except for directors Tomás Milmo Santos and Thomas Lorenzo Milmo Zambrano. Additionally, Axtel declares that ALFA is its principal shareholder, which exercises control, as of February 15, 2016, date on which the Merger between Alestra and Axtel became effective. Except for the changes generated by the aforementioned merger, no significant changes have occurred in the last three years in the ownership percentage maintained by the main shareholders.

The beneficiary shareholders with more than 10% of the capital stock of the Company, which exercise significant influence, control or power of command are ALFA, which has an equity interest of 52.78%, and a group of shareholders holding 19.42% of the Capital stock of Axtel (the "Obligated Shareholders"), which entered into a shareholders' agreement for the purpose of regulating their relationship as shareholders of the Company, as well as the transfer of shares by ALFA and such shareholders. This shareholders' agreement includes, among other provisions, rules for the appointment of Axtel's board of directors, qualified majority matters at general shareholders' meetings, preemptive rights in the case of share transfers, joint selling rights and forced sales rights. In order to implement the agreements established in the shareholders' agreement, ALFA and the Obligated Shareholders entered into a management trust agreement, to which all the shares of the Obligated Shareholders and of ALFA were deposited, which together represent approximately 72% of the total shares of Axtel.

Axtel has no knowledge of any commitment that could mean a change of control.

Axtel has a Code of Ethics that establishes the basic guidelines governing relationships between directors, employees, customers, competitors, creditors, suppliers, government, shareholders, business partners and other stakeholders. This code contains the main guidelines and norms related to the values and ethical principles on which the organization is based and which must be observed and fulfilled in the development of activities, seeking a productive work environment, promoting the conservation of natural resources and the environment, the best corporate governance practices, compliance with current legislation, respect for human rights, equity and diversity, avoiding situations of conflict of interest, bribery, corruption, discrimination and harassment.

Additionally, in accordance with the Internal Regulations of the Mexican Stock Exchange, the Secretary of Axtel annually informs the members of the Board of Directors of the obligations, responsibilities and recommendations of the Professional Code of Ethics of the Mexican Stock Exchange Community, of the Code of Best Corporate Practices and of the other applicable legal provisions of the LMV, the Provisions, the Regulations, and other applicable.

Description of the Personal Inclusion Policy / Program

Axtel has internal programs for labor inclusion, considering, among others, the academic formation, professionalism, professional trajectory and congruence with the values of the Company, without making distinction by diversity factors such as gender, race, nationality, and/or personal beliefs.

Powers of the Board of Directors

The following are the main functions of the Board of Directors and its Committees:

The Board of directors is responsible for the legal representation of the Company and is authorized to perform any act which is not expressly reserved to the Shareholders' meetings. Under the LMV, some of the main matters that must be approved by the Board of Directors include:

- transactions with related persons that arise from the regular course of operations of the Company;
- acquisitions or transfers of a substantial part of the assets of the Company;

- the granting of guarantees with respect to third party obligations, and
- other relevant transactions.

The meetings of the Board of Directors are deemed legally convened when the majority of its members are present, and its resolutions are valid when adopted by vote of a majority of Directors present whose personal interests with respect to a particular case are not contrary to the Company. The Co-Chairmen of the Board of Directors have the casting vote in case of a tie.

Under the LMV, the board of directors must resolve on the following matters, among others:

- establish the overall strategies for managing of the Company;
- approve, subject to prior review of the Audit and Corporate Practices committee, (i) the policies and guidelines for the use of the property the Company by related persons, and (ii) each individual transaction with related persons the Company might intend to carry out, subject to certain restrictions, and any transaction or series of unusual or nonrecurring transactions involving the acquisition or disposition of property, the granting of guarantees or assumption of liabilities totaling not less than 5% in the consolidated assets of the Company;
- appointment and dismissal of the CEO of the Company, and its integral compensation, and policies for the appointment of other key officers;
- financial statements, accounting policies and guidelines on internal control of the Company;
- hiring of external auditors;
- approve the disclosure policies of relevant events; and
- make decisions regarding any other matter of interest.

In addition to the Code of Ethics, the LMV requires the board members to have duties of care and loyalty.

The duty of care means that the directors of the Company must act in good faith and in the best interest of it. The board members of the Company are required to ask the CEO, managers and external auditors for any relevant information reasonably required for decision making. Board members meet their duty of care primarily through attendance at meetings of the Board and its committees, and the disclosure during such sessions, of any important information obtained by them. The board members who fail in their duty of care may be jointly liable for the damages caused to the Company or its subsidiaries.

The duty of loyalty means that board members of the Company must maintain confidentiality regarding information which they acquire by reason of their positions and should not participate in the deliberation and vote on any matter in which they have a conflict of interest. Board members will incur disloyalty against the Company when they obtain economic benefits for themselves, when knowingly promote a particular shareholder or group of shareholders or take advantage of business opportunities without a waiver from the board. The duty of loyalty also means that directors must (i) inform the audit committee and external auditors all the irregularities of acquiring knowledge during the performance of their duties, and (ii) to refrain from spreading false information and order or cause the omission of the registration of operations carried out by the Company, affecting any concept of its financial statements. Board members who fail in their duty of loyalty may be subject to liability for damages caused to the Company or its subsidiaries as a result of acts or omissions described above.

Board members can be subject to criminal penalties consisting of up to 12 years imprisonment for committing acts of bad faith involving the Company, including the alteration of its financial statements and reports.

Responsibility for damages resulting from the violation of the duties of care and loyalty of directors may be exercised by the Company or for the benefit of it by shareholders who individually or collectively, hold shares representing 5% or more of its capital stock. Criminal proceedings may only be brought by the *Secretaría de Hacienda y Crédito Público* ("SHCP") after hearing the opinion of the CNVB.

Board members will not incur in the responsibilities described above (including criminal liability) when acting in good faith, they: (i) comply with the requirements established by applicable laws for the approval of matters concerning the board of directors or its committees, (ii) make decisions based on information provided by relevant executives or others whose capacity and credibility are not subject to reasonable doubt, and (iii) select the most suitable alternative to the best of their knowledge and understanding, or the negative economic effects of the alternative selected were not foreseeable.

Audit and Corporate Practices Committee

Under the LMV, the Board of Directors may be assisted by one or more committees.

For purposes of corporate practices, the committee must (i) provide feedback to the Governing Board on matters within its competence, (ii) seek the advice of independent experts whenever it sees fit, (iii) convene shareholders' meetings, (iv) support the Board of Directors in preparing annual reports and compliance with the obligations of information delivery, and (v) prepare and submit to the Board an annual report on its activities.

In its audit functions in accordance with the LMV, the authority of the committee includes, among others, (i) evaluating the performance of external auditors, (ii) discussing the financial statements of the Company, (iii) monitoring internal control systems (iv) evaluating the conclusion of transactions with related parties, (v) request reports from relevant officers as it deems necessary, (vi) inform the board of directors of all the irregularities they acknowledge, (vii) receive and analyze comments and observations made by shareholders, directors and key executives, and perform certain acts that in their judgment are appropriate in connection with such observations, (viii) convene shareholders' meetings, (ix) evaluate the performance of the CEO of the Company and (x) prepare and submit an annual report of its activities to the Board of Directors.

Additionally, the Audit Committee has new functions, responsibilities and activities stipulated in the General Provisions applicable to entities and issuers supervised by the CNBV that hire external audit services for basic financial statements ("CUAE").

In accordance with the LMV and the bylaws of the company, the Audit and Corporate Practices Committee should be composed solely of independent directors and at least three members of the Board of Directors.

To date, the Company's Audit and Corporate Practices Committee members are Enrique Meyer Guzmán, Alejandro M. Elizondo Barragán and Ricardo Saldívar Escajadillo as proprietary members. The appointment of Enrique Meyer Guzmán as Chairman of said Committee was ratified at the Ordinary General Shareholders' Meeting on March 5, 2021.

Compensation

During the year concluded on December 31, 2020, each board members received as net compensation after the withholding of corresponding taxes, the amount of Ps. 60,000 for each attendance to Board meetings. Members of the Audit and Corporate Practices Committee received a net compensation after the withholding of corresponding taxes of Ps. 40,000 for each attendance to the Committee's meetings.

For the year ended December 31, 2020, compensation and benefits paid to the Company's main officers totaled Ps. 117 million, comprised of base salary and benefits required by law, complemented by a program of variable compensation based on the Company's results and the market value of Alfa's and Axtel's shares. The total amount accumulated by the Company for the pension plan of its key management personnel amounted to Ps. 85 million. On the other hand, there is no agreement of program to involve board members, executives and other employees in Axtel's capital stock.

4.4) Company’s Bylaws and Other Agreements

Modifications in the Bylaws

The Company was incorporated on July 22, 1994, originally under the corporate name of Telefonía Inalámbrica del Norte, S.A. de C.V. Subsequently, through an Extraordinary General Shareholders’ Meeting held on January 28, 1999, it changed its corporate name to Axtel, S.A. de C.V., and by means of an Extraordinary General Shareholders’ Meeting held on November 11, 2005, the Company resolved, among others, to carry a public and private offering of shares, and as a result, the Company’s bylaws were fully amended.

On November 29, 2006, by means of the General Ordinary and Extraordinary Shareholders’ Meeting, the corporate bylaws were once again fully amended, including the adoption of the stock exchange regime in accordance with the applicable legal provisions.

On August 31, 2007, by means of an Extraordinary General Shareholders’ Meeting, among others, the following resolutions were adopted: (i) to carry out a split of the shares that were outstanding, by issuing and delivering to the shareholders three new shares for each of the shares of the same class and series that they owned; and (ii) amend the Sixth Clause of the Company’s bylaws.

Additionally, in accordance with the resolutions adopted by the Extraordinary General Shareholders’ Meeting held on January 25, 2013, the Company issued 972,814,143 Series “B” Class “I” shares which were held in the Company’s treasury, to be subscribed subsequently upon the conversion of Convertible Senior Notes. Likewise, 1,114,029 Series “A” shares were issued.

On January 15, 2016, Axtel and Onexa held Extraordinary Shareholders' Meetings where the merger between Axtel and Onexa was approved, date on which ALFA became the majority shareholder of Axtel, surviving entity under its current corporate name Axtel, S.A.B. de C.V.

Subsequently, on July 21, 2016, the shareholders of the Company through an Extraordinary General Shareholders' Meeting resolved, among other matters, to rectify the number of outstanding shares and shares in the Company’s treasury previously approved by the Extraordinary General Shareholders’ Meeting held on January 15, 2016, in which among others, the merger between Axtel, as the merging company, and Onexa, as the merged company, was approved; the latter being extinguished, in which it was stated that it would proceed to reflect the relevant changes and adjustments in the capital stock derived, among others, from the conversions exercised by the holders of convertible Notes issued pursuant to the resolutions adopted by Axtel on January 25, 2013. Accordingly, it was approved to cancel 182,307,349 ordinary Class "I" Series "B" shares with no par value, representative of Axtel’s capital stock in its fixed minimum part, not subscribed or paid, which had been deposited in the treasury of the Company, intended to support the conversions of the convertible Notes, whose holders did not exercise their respective conversion rights; as a consequence, the capital stock reduction was resolved in the amount of Ps. 92,398,010.82 due to the cancellation of the 182,307,349 shares representing the minimum fixed part of the capital stock. In addition, it was resolved to consolidate Axtel's capital stock into a single series by converting all outstanding Series "A" shares, representing the Company’s capital stock, into Series "B" shares, of the same characteristics.

On March 10, 2017, by means of an Extraordinary General Shareholders’ Meeting, the shareholders of the Company resolved to reduce the capital stock in its fixed minimum part in the amount of Ps. 9,868,331,650.99 to remain in the amount of Ps. 464,367,927.49, in order to partially absorb the negative balance of the account called "Cumulative Fiscal Year Results", a resulting balance after the application of the results of fiscal year 2016, having previously applied to said account the balance as of December 31, 2016 of the account " Share Issuance Premium ".

Subsequently, on February 27, 2018, by means of an Extraordinary General Shareholders’ Meeting, the shareholders resolved to amend Clause Six of the Company’s bylaws, for the sole purpose of adjusting the wording to reflect that all the shares previously held in the Company’s treasury were then fully subscribed, paid and released, in accordance with the resolutions adopted at the Extraordinary General Shareholders' Meeting of the Company held on January

15, 2016, by which ALFA received 1,019,287,950 Class "I" Series "B" shares on July 18, 2017, adjustment equivalent to an increase of 2.50% of ALFA's ownership in Axtel's capital stock; shares held in the Company's treasury and released on that date, as part of the consideration agreed in the merger agreement and approved in the aforementioned Shareholders' Meeting.

Likewise, on February 26, 2019; the merger was carried out by incorporation of Avantel, S. de R.L. de C.V. and Servicios Alestra, S.A. de C.V., as merged entities, in Axtel, as merging entity.

Finally, on March 5, 2021, by means of the Ordinary General Shareholders' Meeting, shareholders of Axtel resolved, among others, to determine the maximum amount of resources to be used for the stock buyback to be Ps. 200 million.

As of the date of this Annual Report, the Company has a total of 20,249,227,481 Class "I" of Series "B" common shares, with no par value, out of which, as of March 31, 2021, 414,910,601 shares remain in Axtel's treasury, derived from its share buyback program.

Shareholders' Meetings and Voting Rights

The general shareholders' meetings may be ordinary or extraordinary. At each general shareholders' meeting, each shareholder shall be entitled to one vote per share.

The extraordinary general shareholders' meetings shall be those convened to decide on the following matters:

- Extending the duration of the Company or early dissolution;
- increases or reductions to the fixed part of the capital stock;
- amendment to the Company's corporate purpose and changes of nationality;
- mergers or transformations;
- issuance of bonds and preferred stock;
- any amendment to the bylaws;
- spin-offs;
- cancellation of shares at the expense of retained earnings; and
- cancellation of the registration of shares in the RNV or any other stock market (except for automatic trading systems).

Ordinary shareholders' meetings are those convened to decide on any matter not reserved for extraordinary meetings. The ordinary general shareholders' meeting shall meet at least once a year, within the first four months after the end of the fiscal year, to resolve, among other things, the following:

- Discussion and approval of the reports of the Board of Directors and the General Director referred to in the LMV and discussion about the application of the results of the immediately preceding fiscal year;
- appointment of members of the Board of Directors and the Audit and Corporate Practices Committee, as well as any other committee that may be created, as well as the determination of their compensation;
- determine the maximum amount that may be used for the share buyback program, and
- discussion and approval of the annual report presented by the Chairman of the Audit and Corporate Practices Committee to the Board of Directors.

In accordance with the provisions of the LMV, the general ordinary shareholders' meeting shall, in addition to the matters described above, approve any operation involving 20% or more of the Company's consolidated assets within the same fiscal year.

To attend the shareholders' meeting, shareholders must be registered in the Company's registry book or provide sufficient evidence of the ownership of their stocks.

For an ordinary shareholders' meeting to be considered legally gathered by virtue of a first call, at least half of the Company's capital stock must be represented, and its resolutions will be valid when taken by a majority vote of the shares with voting rights represented in the meeting. In the case of second or subsequent call, ordinary shareholders' meetings may be held valid regardless of the number of shares represented and their resolutions shall be valid when taken by a majority vote of the shares with voting rights represented in the meeting. For an extraordinary shareholders' meeting to be considered legally gathered by virtue of the first call, at least three-quarters of the capital stock must be represented, and its resolutions will be valid when taken by the favorable vote of at least more than half of the stock with voting rights. In the event of a second or subsequent call, the extraordinary shareholders' meetings may be held valid if at least fifty-one percent of the Company's capital stock is represented, and their resolutions shall be valid if taken by the favorable vote of at least half of such capital stock.

Notices to call for shareholders' meetings must be made by the Board of Directors, its Chairman, its Secretary, or by one or more committees that carry out the functions of corporate and audit practices. Shareholders holding shares with voting rights, including limited or restricted vote, that individually or jointly hold at least 10% of the Company's capital stock shall be entitled to request the Chairmen of the Board of Directors or the Chairmen of the committees that carry out the functions of audit and corporate practices, to gather a general shareholders' meeting on the terms set out in Article 184 of the *Ley General de Sociedades Mercantiles*, this, notwithstanding the applicable percentage specified in such Article. Any shareholder shall have the same right referred to in both cases specified in Article 185 of the *Ley General de Sociedades Mercantiles*. If the notice for the shareholders' meeting is not done within 15 (fifteen) days following the application date, a Civil or District Judge of the Company's domicile will, at the request of any interested shareholder, issue such notice. Notices for ordinary, extraordinary, or special general meetings, must be published in the electronic system established by the Ministry of Economy and, in the case such system is not working, in any of the major newspapers of the Company's domicile, at least 15 calendar days prior to the date set for the meeting (the day in which the publication of the call is made, will be computed within the 15 day period). When the quorum has not been sufficient for a meeting, record shall be taken in the respective book, stating that fact, along with the signatures in such records of the President and Secretary and the appointed Scrutineers, stating the date of issuance of the newspaper on which such call for shareholders' meeting was published. In a second or subsequent call, the publication referred to above, must be made with no less than seven (7) calendar days prior to the date set for the new meeting. Notices shall state the place, date and time that the Meeting should be held, shall contain the agenda which may not include matters under the heading of general matters or equivalent, and shall be signed by the person or persons who make them. With at least fifteen (15) calendar days prior to the date of a shareholders' meeting, all the appropriate information and documents related to each of the points contained in the agenda of the meeting must be available to shareholders at the Company's offices, free of charge. In accordance with the second paragraph of Article 178 of the *Ley General de Sociedades Mercantiles ("LGSM")*, resolutions taken outside the shareholders' meeting, by the unanimous vote of the shareholders representing all of the shares with voting rights, or special series shares if that were the case, shall for all legal purposes be deemed as valid as if they were adopted at a general or special shareholders' meeting, provided that such decisions are confirmed in writing by the shareholders.

Only persons registered as shareholders in the Share Registry Book, as well as those holding certificates stating the amount of such securities held by such person, issued by the institution for the deposit of securities, along with the list of holders of such securities issued by such institution, shall be entitled to appear or be represented at the shareholders' meeting, for which the provisions of the LMV shall be applied.

The minutes of the shareholders' meetings shall be prepared by the Secretary of the Board, or the person who had acted as Secretary of the shareholders' meeting; to be entered in the respective book, and will be signed by the Chairman, Secretary and the designated scrutineers.

Dividend Payment and Settlement

Prior to the payment of any dividend, the Company shall set aside 5% of its net profits to integrate the legal reserve fund referred to in Article 20 of the *LGSM*, until such fund reaches the equivalent to 20% of the subscribed capital paid by the Company. Shareholders may agree to allocate additional amounts to the legal reserve fund, including the amounts destined for repurchase of stock. The remainder, if any, may be paid as a dividend to shareholders. Where appropriate, the payment of cash dividends to shares that are not deposited in Indeval will be made against delivery of the applicable coupon, if any.

To the extent that dividends are declared and paid to shareholders, holders of shares purchased in the U.S. or any other country other than Mexico are entitled to receive such dividends in Pesos. Currently there is no tax or withholding tax in accordance with Mexican law on shares acquired outside of Mexico or the dividends declared on such shares.

At the time of dissolution and liquidation of the Company, the ordinary general shareholders' meeting shall designate one or more liquidators, who must liquidate the Company. In the event of liquidation, all shares fully subscribed and paid shall be entitled to receive their proportional participation in the distribution of the Company's assets.

Purchase of Shares by Subsidiaries of Axtel

Any company in which Axtel is the majority shareholder may not, directly or indirectly, acquire shares of the Company or companies who own the majority of the Company's shares. In accordance with the LMV, this restriction does not apply to the acquisition of shares representing the Company's capital stock, through mutual funds.

Vote of Foreign Investors holding CPOs

On March 26, 2018, a Modification Agreement of the Irrevocable Trust Agreement No. 80471 called Axtel CPO's was signed, for the purpose of modifying, among others, the elimination of the restrictions on corporate rights to foreign holders. Therefore, the amendment to the CPOs Issuance Act was formalized on May 23, 2018 as well as the respective exchange of the CPOs before the *S.D. Indeval, Institución para el Depósito de Valores, S.A. of C.V.,* executed on July 31, 2018.

Measures to prevent the change of control in Axtel

General

The Company's bylaws provide, subject to certain exceptions, that: (A) any person who individually, or jointly with one or more Related Parties, seeking to acquire Shares or rights over Shares, by any means or title, directly or indirectly, either in an act or a succession of acts without a time limit between each other, and as a result of such acquisition its shareholdings as an individual and/or jointly with the Related Party(ies) represent a participation of 5% or more, of all Series "B" Shares, shall require prior written consent from the Board of Directors and/or the Shareholders meeting, as provided below, (B) any person who individually or jointly with one or more Related Parties, which holds 5% or more of the total of Series "B" Shares, intend to acquire Shares or rights over Shares, by any means or title, directly or indirectly, whether in one transaction or a series of events without a time limit between each other, and as a result, its shares holding as an individual and/or jointly with the Related Party(ies) represent a participation of 15% or more of all Series "B" Shares, as applicable, shall require prior written consent from the Board of Directors and/or the Shareholders' meeting, as provided below, (C) any person who individually or jointly with one or more Related Parties, which maintain a 15% or more of the total of Series "B" shares, intend to acquire Shares or rights over Shares, by any means or title, directly or indirectly, whether in one transaction or a series of events without a time limit between each other, and as a result, its shares holding as an individual and/or joinlty with the Related Party(ies) represent a participation of 25% or more of all Series "B" Shares, as applicable, shall require prior written consent from the Board of Directors and/or the Shareholders' Meeting, as provided below; (D) any person who individually or jointly with one or more Related Parties, which maintaining a 25% or more of the Series "B" Shares, intends to acquire Shares or rights over Shares, by any means or title, directly or indirectly, whether in an act or a succession of acts without a time limit between each other, and as a result, its shareholding as an individual and/or jointly with the Related Party(ies) represent 35% or more of all Series "B" Shares, as applicable, shall require prior written consent from the Board of Directors and/or the Shareholders' Meeting, as provided below, (E) any person who individually or jointly with one or more Related Parties, which maintained a 35% or more of the Series "B" Shares, intends to acquire Shares or rights over Shares, by any means or title, directly or indirectly, whether in one transaction or a series of events without a time limit between each other, and as a result its shareholding as an individual and/or in conjunction with the Related Party(ies) represent 45% or more of all Series "B" Shares, as applicable, shall require prior written consent from the Board of Directors and/or the Shareholders' Meeting, as provided below, (F) any person who is a competitor of the Company or of any Subsidiary of the Company, who individually or together with one or more Related Parties, intend to acquire Shares or rights over Shares, by any means or title, directly or indirectly, whether in one transaction or a series of events without a time limit between each other, and as a result their shareholding as an individual and/or jointly with the Related Party(ies) represent 3% or more of all Series "B" Shares, or its multiples thereof, shall require prior written consent of the Board of Directors and/or the Shareholders' Meeting, as applicable.

The person who acquires shares without having complied with any of the procedures, requirements, authorizations and other provisions set forth in the corporate bylaws, shall not be registered in the Company's share registry, and consequently, such person will not be able to exercise the corporate rights corresponding to such Shares, specifically including the right to vote at shareholders' meetings, unless the Board of Directors or the general extraordinary shareholders' meeting authorizes otherwise. In the case of Persons who already are shareholders of the Company and, therefore, the ownership of their shares has already been entered in the Company's shares registry, the shares acquired without having complied with the procedures, requirements, authorizations and other provisions of such clause of the bylaws will not be entered in the Company's registry of shares and, accordingly, such persons may not exercise the corporate rights that apply to such actions, specifically including the right to vote in shareholders' meetings, unless the Board of Directors or the general extraordinary shareholders' meeting authorizes otherwise. In the cases in which any of the procedures, requirements, authorizations and other provisions provided for in the Company's bylaws, the certificates or listing of records referred to in the first paragraph of Article 290 of the LMV are not met, ownership of the Shares shall not be proved, neither the right to attend shareholders' meetings and the inscription in the shares registration, nor exercise of any actions, including those of a procedural nature, shall be deemed as legitimated, unless the Board of Directors or the general extraordinary shareholders' meeting authorizes otherwise. Additionally, and in accordance with Article 2117 of the Federal Civil Code, any person who acquires shares in violation of the provisions of the Company's bylaws, shall be required to pay a penalty to the Company for an amount equivalent to the price paid for all the Shares that were wrongfully acquired. In the case of shares acquired in violation of the provisions of the bylaws and free of charge, the penalty shall be for an amount equal to the market value of the wrongfully acquired Shares. Approvals granted by the Board of Directors or the Shareholders' Meeting as provided in the bylaws, shall cease to have effect if the information and documentation based on which these approvals were granted is not or ceases to be true. Likewise, the person who acquires shares in violation of the provisions of the bylaws, must transfer the wrongfully acquired Shares, to a third party approved by the Board of Directors or the Company's general extraordinary shareholders' meeting, in which case, the provisions for such matters contained in the Company's bylaws must be followed and complied with in order to carry out such disposal, including delivery to the Board of Directors of the Company, through its Chairman and Secretary, of the information referred to in the bylaws.

Requirements and Approvals of the Board of Directors and Shareholders Meeting

To obtain the prior consent of the Board of Directors, the potential acquirer must submit an authorization request, which must contain certain specific information. During the authorization process, certain terms must be met. The Board of Directors may, without liability, submit the request for authorization to the general extraordinary shareholders' meeting for resolution. The determination of the Board of Directors to submit for the consideration of the Shareholders' Meeting must consider different factors such as the potential conflict of interest, equity in the proposed price or when the Board is not able to meet having been convened more than twice, among other factors. The Board of Directors may reject any authorization previously granted before the date on which the transaction is consummated, in the event the Board receives a better offer for the Company's shareholders. If the Board of Directors or the Shareholders' Meeting does not resolve, in a negative or positive sense, on the terms and forms established in Axtel's bylaws, it is understood that the request for authorization to acquire shares in question has been denied.

Mandatory Public Tender Offer to Purchase in Certain Acquisitions

In the event that the Board of Directors authorizes the requested acquisition of Shares, and said acquisition involves the acquisition of a participation of between 20% or 40% in the Company, and notwithstanding the approval, the Person who intends to acquire such Shares must make a public tender offer to purchase, in cash, and at a price determined in accordance with the procedure established in the following paragraph, for an additional 10% of the Company's capital stock, without such acquisition, including the additional, exceeding half of the ordinary shares with voting rights or implying a change of Control in the Company.

In the case that the Board of Directors or the General Extraordinary Shareholders' Meeting, as the case may be, approves an acquisition that may result in a change of control, the acquirer in question must make a public tender offer to purchase 100% minus one, of the existing Shares of the Company, at a price payable in cash that shall not be less than the price that is greater than the following:

> a) The book value of the shares, according to the latest quarterly income statement approved by the Board of Directors; or b) the highest closing price of the shares during the 365 days prior to the date of the authorization granted by the Board of Directors; or c) the highest price paid in the purchase of Shares at any time by the Person who individually or jointly, directly or indirectly, acquires the Shares subject to the authorization by the Board of Directors; or d) the highest enterprise value multiple of the Company for the last 36 months, multiplied by the EBITDA known for the last 12 months minus the most recent known net debt. The aforementioned enterprise value multiple corresponds to the market value of the Company (the share or CPO closing price multiplied by the total number of shares or CPOs outstanding representative of 100% of the Company's capital stock) plus the known net debt, divided by the known last 12-months EBITDA.

Any public tender offer that must be conducted in relation to the foregoing shall be subject to certain specific requirements. All shareholders of the Company must be paid the same price for their shares in the public tender offer. The provisions of the Company's bylaws summarized in this paragraph, related to the mandatory tender offer for certain acquisitions, is generally more rigid than the provisions of the LMV. Some of the provisions of the bylaws relating to the public tender offer in the case of certain acquisitions differ from the requirements established in the LMV, in the understanding that the provisions of the bylaws grant greater protection to minority shareholders than those provided by law. In these cases, the provisions contained in the bylaws, and not the corresponding provisions of the LMV, will apply to the acquisitions specified herein.

Exceptions

The provisions of the Company's bylaws summarized above, do not apply to acquisitions or transfers of Shares that are carried out by succession, to those acquired by the Person(s) who control the Company and those managed by Axtel, its subsidiaries or affiliates or by any trust created by the Company or any of its subsidiaries, among others.

Amendments to the Provisions on the Protection against hostile takeover

Any amendment to the provisions relating to protection against hostile takeover must be made in accordance with the terms established by the LMV and registered in the Public Registry of Commerce at the Company's domicile.

Other provisions

Appraisal Rights and Other Minority Rights

If shareholders agree to modify the Company's corporate purpose, nationality or agree to transform it into other type of corporation, any shareholder who voted against the amendment may exercise its withdrawal right, receiving the book value of shares (in accordance with the last balance sheet approved by the shareholders), provided that the withdrawal request is submitted within 15 days following the day in which such amendments were adopted.

In accordance with the LMV, issuers are required to observe certain minority rights, including rights that allow:

- shareholders representing at least 10% of the duly subscribed and paid capital stock of the Company, to call for a meeting in which they are entitled to vote;
- shareholders representing at least 15% of the Company's capital stock, to claim, subject to certain legal requirements, certain civil responsibilities against the members of the Board of Directors of the Company;

- shareholders representing at least 10% of the stock with voting rights who are present or represented at a shareholders' meeting, may request to postpone the voting of issues on which there are not sufficiently informed; and
- shareholders representing at least 20% of the duly subscribed and paid capital stock, to oppose and stop any resolution adopted by the shareholders, subject to compliance with certain legal requirements.

Additionally, and in accordance with the LMV, Axtel is subject to comply with certain corporate governance issues, including the requirement to maintain a committee performing the functions of Audit and corporate practices, and the election of independent directors.

The rights granted to minority shareholders, and the liabilities of the Company's directors under Mexican law are different from those given by law in the United States and other countries. Mexican courts have not ruled exhaustively in relation to the responsibilities of board members, unlike the courts of different states of the United States, where court rulings in this matter have identified some of the rights attributable to minority shareholders. Mexican procedural law does not contemplate the possibility of class actions or shareholder lawsuits, which in the United States allow shareholders to incorporate other shareholders into their claims or to exercise rights attributable to the Company. Shareholders of Mexican companies do not have the power to oppose resolutions adopted at shareholders' meetings unless they strictly comply with procedural requirements. As a result of the foregoing, it is usually more complicated for the minority shareholders of Mexican corporations to file lawsuits against the Company or its board members, in comparison with the shareholders of companies in the United States.

Responsibilities of Board Members and Committee Members

Liability claims against board members and committee members will be subject under the provisions stated in the LMV. In accordance with the LMV, shareholders representing at least 5% of the Company's capital stock may exercise liability claims against board members in case of breach of duties of due diligence and loyalty, and may obtain for the benefit of the Company, the payment of an indemnity equivalent to the amount of damages and losses. These liability actions are prescribed at the end of five years and may not be exercised if the board members are protected by the exceptions stated in the LMV.

Conflicts of Interest

A shareholder who votes on any resolution in which there is a conflict of interest may incur in a responsibility for direct and consequential damages incurred to the Company, provided that the resolution could not have been approved without the affirmative vote of such shareholder. Additionally, a member of the Board of Directors or a committee member that performs audit and corporate governance functions, that have any conflict of interest must inform the other members of such board or committee, or of the Company, and restrain from voting on any resolution regarding such matter. Failure to comply with these obligations by a board member or committee member that performs audit and corporate governance functions may result in liability to such board member or committee member in question as well as in the payment of damages.

The Board of Directors shall carry out all acts not reserved by law or by the bylaws to the shareholders' meeting, and shall have the functions, duties and powers established and provided for in the LMV and other applicable legal provisions. See Section *4.3) Powers of the Board of Directors*.

Suspension of the Resolutions Adopted by Shareholders

Holders of shares with voting rights, including limited or restricted vote, who individually or jointly hold 20% or more of the Company's capital stock, may judicially oppose the resolutions of the general shareholders' meetings in which they were entitled to vote. The above, subject to the terms and conditions set forth in Article 201 of the *Ley General de Sociedades Mercantiles*, without the percentage referred to that article, and Article 202 of the aforementioned law being equally applicable.

Admission of Foreigners

In accordance with applicable law, the Company’s bylaws state that when acquiring Company’s shares, foreign shareholders are obliged to: (i) be considered as Mexican in everything relating to their shares, properties, rights, concessions, participations or interests in which the Company is the holder, and the rights and obligations resulting from any contract between the Company and the federal government, and (ii) do not seek the protection of their government. If a shareholder invokes such protection, in contravention with the provisions of the bylaws, it’s bound to lose its Shares in benefit of the Mexican Nation. This prohibition does not apply to legal proceedings before foreign courts.

Jurisdiction

The Company’s bylaws state that any dispute between the shareholders and the Company, or between the shareholders on matters relating to the Company, the parties hereby agree to submit such matters to the jurisdiction of the courts located on the state of Nuevo Leon, Mexico.

CPO Trust and other agreements

The Company is listed on the BMV through non-redeemable CPOs issued under the CPO Trust, each representing 7 Series "B" Class "I" shares of the capital stock of Axtel.

The holders of CPOs that are considered investors, may instruct the Trustee to exercise the right to vote with respect to the Shares underlying the CPOs of their ownership, in the event that the investors do not issue the respective instruction up to 3 days before the respective Shareholders' Meeting, the Trustee shall cast their vote in the same way as most of the holders of Series "B" Shares considered investors do so.

On the other hand, ALFA and a group of shareholders holding approximately 19.42% of the capital stock of Axtel, entered into a Shareholders’ Agreement to regulate their relationship as shareholders of the Company, as well as the transfer of shares from ALFA and such shareholders. This Shareholders’ Agreement contains, among other provisions, rules for the appointment of the board of directors of Axtel, matters of qualified majority in general shareholders' meetings, preferential rights in the case of transfers of shares, joint selling rights and forced sales rights.

Except as provided by the Company's bylaws, by the CPO Trust and the Shareholders’ Agreement, there are no other statutory clauses or agreements between shareholders or other mechanisms that limit or restrict the Company's management or its shareholders.

5) STOCK MARKET

5.1) Shareholders' Structure

The CPOs of the Company are conformed by Series "B" Class "I" Shares. Each CPO represents 7 shares of the mentioned series and trade in the BMV. On December 17, 2018, the Company requested Bank of New York Mellon to cancel its ADS program. Resulting from the Merger between Alestra and Axtel, Alfa owns approximately 52.78% of Axtel's capital stock.

5.2) Stock Performance in the Stock Market

The following table shows the maximum and minimum prices of the CPOs in the Mexican Stock Exchange (BMV). Prices are expressed in constant pesos.

	Maximum	Minimum	Volume
	(Pesos per CPO)		*(in thousands)*
Annual Maximum and Minimum:			
2016	8.77	3.45	745,863
2017	4.88	3.30	442,453
2018	4.89	2.91	368,345
2019	3.27	2.04	408,431
2020	8.45	2.57	411,676
2019:			
First Quarter	3.05	2.27	106,589
Second Quarter	2.62	2.04	128,284
Third Quarter	2.85	2.33	47,969
Fourth Quarter	3.27	2.83	125,589
2020:			
First Quarter	4.35	2.82	95,450
Second Quarter	4.23	2.57	105,484
Third Quarter	7.22	3.94	123,490
Fourth Quarter	8.45	5.70	87,253
Monthly Maximum and Minimums:			
2020:			
January	3.20	2.90	15,464
February	4.35	3.35	32,785
March	4.29	2.82	47,201
April	2.87	2.57	38,077
May	3.48	2.69	25,504
June	4.23	3.54	41,903
July	5.94	3.94	45,914
August	6.99	6.11	56,482
September	7.22	6.83	21,094
October	8.45	7.02	23,223
November	8.26	7.93	14,486
December	8.17	5.70	49,543
2021:			
January	6.07	5.69	17,453
February	5.80	5.08	19,858
March	6.11	5.09	21,470

5.3) Market Maker

As of December 31, 2020, Axtel has not entered into a Market Maker contract with any intermediary.

axtel

San Pedro Garza García, Nuevo León a 5 de marzo de 2021

BOLSA MEXICANA DE VALORES, S.A.B. DE C.V.
Presente.-

De conformidad con el Artículo 33 fracción I, inciso a), párrafo 3 de las "Disposiciones de Carácter General Aplicables a las Emisoras de Valores y otros Participantes del Mercado de Valores", emitidas por la Comisión Nacional Bancaria y de Valores y publicadas en el Diario Oficial de la Federación ("DOF"), el 19 de marzo de 2003, y sus actualizaciones, y con relación a los Estados Financieros Consolidados Anuales Dictaminados al 31 de diciembre de 2020 de Axtel, S.A.B. de C.V., hacemos constar que:

> "Los suscritos manifestamos bajo protesta de decir verdad que, en el ámbito de nuestras respectivas funciones, preparamos la información relativa a Axtel, S.A.B. de C.V. contenida en los estados financieros anuales dictaminados al 31 de diciembre de 2020, la cual, a nuestro leal saber y entender, refleja razonablemente su situación. Asimismo, manifestamos que no tenemos conocimiento de información relevante que haya sido omitida o falseada en estos estados financieros anuales o que el mismo contengan información que pudiera inducir a error a los inversionistas".

Atentamente,

Ing. Eduardo E. Escalante Castillo
Director General

Ing. Adrián Gerardo de los Santos Escobedo
Director de Finanzas

Lic. Carlos Jiménez Barrera
Director Jurídico

EXHIBIT A

LETTERS OF EXTERNAL AUDITOR

Axtel, S. A. B. de C. V.

Manifestación de consentimiento para la inclusión en el reporte anual del informe de auditoría externa y de revisión de la información del informe anual al 31 de diciembre de 2020

Galaz, Yamazaki,
Ruiz Urquiza, S.C.
Ave. Juárez 1102, piso 40
colonia Centro,
64000 Monterrey,
México

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Al Presidente del Comité de Auditoría de
Axtel, S. A. B. de C. V.

En los términos del Artículo 39 de las Disposiciones de carácter general aplicables a las Emisoras supervisadas por la Comisión Nacional Bancaria y de Valores que contraten servicios de auditoría externa de estados financieros básicos, publicadas en el Diario Oficial de la Federación ("DOF") del 26 de abril de 2018 y sus modificaciones posteriores (las "Disposiciones") y del Artículo 84 Bis de las Disposiciones de carácter general aplicables a las emisoras de valores y otros participantes del mercado de valores publicadas en el DOF del 19 de marzo de 2003 y sus modificaciones posteriores (la "Circular Única de Emisoras"), en nuestro carácter de auditores externos independientes de los estados financieros consolidados por los años que terminaron el 31 de diciembre de 2020, 2019 y 2018 de Axtel, S. A. B. de C. V., manifestamos lo siguiente:

I. Que expresamos nuestro consentimiento para que la Emisora incluya en el reporte anual, el Informe de Auditoría Externa que al efecto emitimos.

II. Lo anterior en el entendido de que previamente nos cercioramos que la información contenida en los Estados Financieros Básicos Consolidados incluidos en el reporte anual del ejercicio 2020, así como cualquier otra información financiera comprendida en dichos documentos cuya fuente provenga de los mencionados Estados Financieros Básicos Consolidados o del Informe de Auditoría Externa que al efecto presentamos, coincide con la información financiera auditada, con el fin de que dicha información sea hecha del conocimiento público.

Atentamente,
Galaz, Yamazaki, Ruiz Urquiza, S. C.
Miembro de Deloitte Touche Tohmatsu Limited

C. P. C. Jaime Luis Castilla Arce
Representante Legal
Monterrey, Nuevo León, México
27 de abril de 2021

C. P. C. Héctor García Garza
Auditor Externo
Monterrey, Nuevo León, México
27 de abril de 2021

* * * * *

Galaz, Yamazaki,
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Estimados Señores:

Los suscritos manifestamos, bajo protesta de decir verdad, que los estados financieros consolidados de Axtel, S. A. B. de C. V. (la "Emisora") al 31 de diciembre de 2020, 2019 y 2018, y por los años que terminaron en esas fechas, contenidos en el presente reporte anual, fueron dictaminados con fecha 31 de enero de 2021, 2020 y 2019 respectivamente, de acuerdo con las Normas Internacionales de Auditoría.

Asimismo, manifestamos que hemos leído el presente reporte anual y, basado en su lectura y dentro del alcance del trabajo de auditoría realizado, no tenemos conocimiento de errores relevantes o inconsistencias en la información que se incluye y cuya fuente provenga de los estados financieros consolidados dictaminados, señalados en el párrafo anterior, ni de información que haya sido omitida o falseada en este reporte anual, o que el mismo contenga información que pudiera inducir a error a los inversionistas.

No obstante, los suscritos no fuimos contratados para realizar, y no realizamos, procedimientos adicionales con el objeto de expresar una opinión respecto de la otra información contenida en el reporte anual que no provenga de los estados financieros consolidados dictaminados.

Atentamente,
Galaz, Yamazaki, Ruiz Urquiza, S. C.
Miembro de Deloitte Touche Tohmatsu Limited

C. P. C. Jaime Luis Castilla Arce	C. P. C. Héctor García Garza
Representante Legal	Auditor Externo
Monterrey, Nuevo León, México	Monterrey, Nuevo León, México

* * * * *

EXHIBIT B

AUDITED FINANCIAL STATEMENTS

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

2020

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.

2019

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	**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	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	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.

* * * * *

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, 2019 and 2018, and Independent Auditors' Report Dated January 31, 2020

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, 2019 and 2018

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, 2019 and 2018, and the consolidated statements of operations, the consolidated statements of comprehensive (loss) income, the consolidated statements of changes in shareholders' equity and the consolidated statements of cash flows for the years then ended, as well as explanatory notes to the consolidated financial statements which includes a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2019 and 2018, as well as their consolidated financial performance and their 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.

Key audit matters

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

Assessment of impairment of long-lived assets and goodwill

As described in Note 3 k) and 12 to the consolidated financial statements, the Company performs annual impairment tests to the balance of goodwill, intangible assets with an indefinite useful life and of the property, plant and equipment.

We have identified the impairment evaluation 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"), in addition to the importance of the goodwill and intangible assets balances of $1,052 and $1,405 million, as well as the property, plant and equipment balance of $12,964 and $16,106 million, as of December 31, 2019 and 2018, respectively.

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

- We verified that the methods applied by the Company for determining the recovery value of the aforementioned assets correspond to the financial methodology used and recognized to value assets of similar characteristics.
- Performed tests on the completeness, accuracy and reasonableness of financial projections by comparing them to the business performance and historical trends, verifying the explanations of the variations with management. In addition, we assessed the internal processes used by management to make projections, including appropriate oversight levels and the analysis that was carried out at the various levels.
- Analyzed the significant assumptions used in the model for calculating the recoverable value of CGUs compared to those commonly used in the industry in which the Company operates, including the long-term growth rate, gross and operating margins and the discount rate determined based on comparable companies in the industry.
- Evaluate of discount rates used and the methodology used in the preparation of the model of the impairment test. In addition, we tested the integrity and accuracy of the impairment model and the book value of CGU.
- To determine the CGU, we considered the Company's operating cash flows, synergies that have been generated in the business, the market segments where they operate and the different lines of goods and services that they offer their clients.
- Evaluate the independent assessment of the sensitivity of the key assumptions for the impairment model, which we discussed with management estimating the degree of impact they would have on the financial statements in the face of a reasonably possible change in such key assumptions.

The results of our procedures were satisfactory, and we believe the assumptions used by management in the impairment test, 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 two documents, the Annual Stock Exchange Filing and the information that will be incorporated in the Annual Report that the Company must prepare pursuant to the General Provisions Applicable to Issuers and other Participants in the Mexican Stock Exchange and file it with the National Banking and Securities Commission ("CNBV" for its acronym in Spanish). The Annual Stock Exchange Filing and the Annual Report are expected to be made available to us after the date of this auditors' report.

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

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

Responsibilities of Management and those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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. Héctor García Garza
Monterrey, Nuevo León México
January 31, 2020

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, 2019 and 2018
Thousands of Mexican pesos

	Note	2019	2018
Assets			
Current assets:			
Cash and cash equivalents	6	$ 857,742	$ 2,249,155
Trade and other accounts receivable, net	8	3,344,674	3,593,881
Inventories	9	93,982	104,802
Financial instruments at fair value	4	92,673	129,075
Prepayments	3.j	521,406	546,064
Derivative financial instruments	4	-	5,898
Long-lived assets held for sale	2.b	1,124,613	315,053
Total current assets		6,035,090	6,943,928
Non-current assets:			
Restricted cash	7	-	93,908
Property, plant and equipment, net	10	12,963,991	16,105,524
Right of use asset, net	11	661,246	-
Goodwill and intangible assets, net	12	1,052,258	1,405,387
Deferred income taxes	20	2,876,287	2,873,075
Other non-current assets	13	741,897	716,287
Derivative financial instruments	4	-	17,693
Total non-current assets		18,295,679	21,211,874
Total assets		$24,330,769	$28,155,802
Liabilities and Shareholders' Equity			
Current liabilities:			
Debt	17	$ 131,632	$ 465,828
Lease liability	18	451,775	-
Trade and other accounts payable	14	4,169,016	7,423,978
Provisions	15	220,190	312,384
Deferred income	16	153,229	536,452
Derivative financial instruments	4	51,814	39,258
Total current liabilities		5,177,656	8,777,900
Non-current liabilities:			
Debt	17	13,836,310	15,156,918
Lease liability	18	414,323	-
Accounts payable to related parties	14	703,348	4,033
Employee benefits	19	695,498	592,037
Derivative financial instruments	4	91,898	-
Deferred income taxes	20	759	4,007
Total non-current liabilities		15,742,136	15,756,995
Total liabilities		20,919,792	24,534,895
Shareholders' equity:			
Controlling interest:			
Capital stock	21	464,368	464,368
Additional paid-in capital		-	159,551
Accrued earnings		3,104,427	3,013,954
Other comprehensive loss		(157,818)	(16,972)
Total controlling interest		3,410,977	3,620,901
Non-controlling interest		-	6
Total shareholders' equity		3,410,977	3,620,907
Total liabilities and shareholders' equity		$24,330,769	$28,155,802

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, 2019 and 2018
Thousands of Mexican pesos

	Note	2019	2018
Revenues	23	$12,783,633	$12,788,484
Cost of sales		(6,104,427)	(6,290,978)
Gross profit		6,679,206	6,497,506
Administration and selling expenses		(5,841,918)	(6,008,955)
Other (expenses) income, net	25	(63,453)	206,929
Operating income		773,835	695,480
Financial income	26	60,253	52,129
Financial expenses	26	(1,468,752)	(1,868,618)
Exchange fluctuation gain, net	26	290,275	186,888
Gain on changes in fair value of financial instruments		(8,919)	(35,202)
Financial result, net		(1,127,143)	(1,664,803)
Loss before taxes		(353,308)	(969,323)
Income taxes benefit (expense)	20	15,291	(37,338)
Loss from continuing operations		(338,017)	(1,006,661)
Discontinued operations	22	324,078	2,101,339
Net consolidated (loss) income		$ (13,939)	$ 1,094,678
(Loss) income attributable to:			
Controlling interest		$ (13,939)	$ 1,094,678
Non-controlling interest		-	-
		$ (13,939)	$ 1,094,678
Loss per basic and diluted share from continuing operations		(0.017)	(0.050)
Profit per basic and diluted share from discontinued operations		0.016	0.104
(Loss) profit per basic and diluted share		(0.001)	0.054
Weighted average common outstanding shares (thousands of shares)		20,183,560	20,249,227

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 (Loss) Income

For the years ended December 31, 2019 and 2018
Thousands of Mexican pesos

	Note	2019	2018
Net consolidated (loss) income		$ (13,939)	$1,094,678
Other comprehensive (loss) income for the year:			
Items that will be reclassified to the consolidated statement of operations:			
Effect of currency translation	20	(2,468)	(86)
Fair value of derivative financial instruments, net of taxes		(88,940)	(8,370)
Items that will not be reclassified to the consolidated statement of operations:			
Remeasurements of employee benefits, net of taxes	20	(49,438)	42,280
Total other comprehensive (loss) income for the year		(140,846)	33,824
Total comprehensive (loss) income of the year		$(154,785)	$1,128,502
Attributable to:			
Controlling interest		$(154,785)	$1,128,502
Non-controlling interest		-	-
Comprehensive (loss) income of the year		$(154,785)	$1,128,502

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, 2019 and 2018
Thousands of Mexican pesos

	Controlling interest						
	Capital stock	Additional paid- in capital	(Accumulated deficit) retained earnings	Other comprehensive loss	Total controlling interest	Non-controlling interest	Total shareholders' equity
Balances as of January 1, 2018	$464,368	$159,551	$ 1,919,276	$ (50,796)	$2,492,399	$ 6	$ 2,492,405
Net consolidated income	-	-	1,094,678	-	1,094,678	-	1,094,678
Total other comprehensive income for the year	-	-	-	33,824	33,824	-	33,824
Comprehensive income	-	-	1,094,678	33,824	1,128,502	-	1,128,502
Balances as of December 31, 2018	$464,368	$159,551	$ 3,013,954	$ (16,972)	$3,620,901	$ 6	$ 3,620,907
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

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

	2019	2018
Cash flows from operating activities		
Loss before taxes	$ (353,308)	$ (969,323)
Depreciation and amortization	3,578,541	3,622,713
Exchange fluctuation gain, net	(290,275)	(186,888)
Allowance for doubtful accounts	8,874	114,207
Loss (gain) from sale of property, plant and equipment	5,046	(226,646)
Interest income	(60,253)	(52,129)
Interest expense	1,468,752	1,868,618
Current PTU	12,524	9,825
Provisions and others	(65,009)	129,315
Change in unrealized fair value and settlement of financial instruments	8,919	35,202
Changes in working capital:		
Trade and other accounts receivable, net	120,012	(629,388)
Inventories	131,289	84,083
Trade accounts payable, related parties and other accounts payable	(1,162,728)	395,526
Employee benefits	32,835	38,797
Paid PTU	(9,178)	(16,693)
Deferred income	(383,223)	224,331
Operating cash flows from discontinued operations	(29,633)	1,061,978
Subtotal	3,013,185	5,503,528
Income taxes paid	(56,481)	(92,478)
Net cash flows generated by operating activities	2,956,704	5,411,050
Cash flows from investing activities		
Acquisitions of property, plant and equipment	(1,691,354)	(1,405,494)
Disposal of property, plant and equipment	-	226,646
Acquisition of intangible assets	(70,676)	(465,207)
Interest received	60,254	52,318
Restricted cash and other assets	93,908	29,033
Investment in shares of Altán	(69,959)	(17,868)
Investing cash flows from discontinued operations	1,150,000	3,956,544
Net cash flows generated by (used in) investing activities	(527,827)	2,375,972
Cash flows from financing activities		
Proceeds of current and non-current debt	-	619,355
Payments of current and non-current debt	(550,000)	(5,753,342)
Lease payments	(638,067)	-
Payment of account payable to holding company	(1,237,640)	-
Interest paid and other financial expenses	(1,395,272)	(1,677,825)
Net cash flows used in financing activities	(3,820,979)	(6,811,812)
Net increase (decrease) of cash and cash equivalents	(1,392,102)	975,210
Effect of changes in exchange rates	689	16,142
Cash and cash equivalents at the beginning of the year	2,249,155	1,257,803
Cash and cash equivalents at the end of the year	$ 857,742	$2,249,155

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, 2019 and 2018
Thousands of Mexican pesos, unless otherwise indicated

1. General information

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

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

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

2019

a. *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.

b. ***Sale of data centers in Apodaca and Querétaro***

On 3 October 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 currently belonging to Axtel, two of these data centers are located in Querétaro and one in the metropolitan area of Monterrey. Axtel will maintain a non-controlling shareholding over the new subsidiary entity.

The amount of the transaction is US$175 million, which will be settled in cash, except US$13 that will be 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, are 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 (see Note 31).

c. ***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 the outstanding debt costs as of that date of $8,250.

2018

d. ***Sale of massive segment***

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

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

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

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

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

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

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

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

g. ***Debt restructuring***

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

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

3. Summary of significant accounting policies

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

a. ***Basis of preparation***

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

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

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

b. ***Changes in accounting policies and disclosures***

i. New standards and changes adopted by the Company.

The Company adopted IFRS 16, *Leases,* and IFRIC 23, *Interpretation on Uncertainty over Income Tax Treatments*, all new standards and interpretations in effect as of January 1, 2019, including the annual improvements to IFRS, as described below:

IFRS 16, Leases

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

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

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

The Company adopted IFRS 16 on January 1, 2019; therefore, it recognized a right-of-use asset and a lease liability of approximately $680,405.

The weighted average incremental rate on which the minimum payments of the lease agreements within the scope of IFRS 16 were discounted at present value was 11.74%.

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

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

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

The following is a reconciliation of the total commitments of operating leases as of December 31, 2018 and the lease liability at the date of initial adoption:

	2019
Operating lease commitments as of December 31, 2018	$834,651
Amount discounted using the incremental borrowing rate as of January 1, 2019	680,405
Lease liabilities as of December 31, 2018	
(-): Short-term leases not recognized as lease liabilities	-
(-): Low value assets not recognized as lease liabilities	-
(+/-): Adjustments by extension of terms and others	-
(+/-): Adjustments related to changes in the index of variable payment	-
Lease liability as of January 1, 2019	$680,405

IFRIC 23, *Uncertainty over Income Tax Treatments*

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

The Company applied IFRIC 23 from January 1, 2019. As a method of initial adoption, the Company determined that the impacts of the implementation of this Interpretation as of January 1, 2019 are not material considering the prevailing conditions of the tax positions that it has taken at the date of adoption and the faculties of the competent authorities to assess tax positions held by the Company at the same date.

ii. New standards and interpretation, not in force in the reporting period

The Company has reviewed the following new IFRS and improvements issued by IASB not yet effective for the reporting period, and in its evaluation process did not visualize potential impacts due to its adoption, considering that they are not of significant applicability:

- IFRS 17 – Insurance contracts (1)
- Amendments to IFRS 3 – Definition of a business (2)
- Amendments to IAS 1 e IAS 8 – Definition of material (2)
- Amendments to IFRS 9, IAS 39 e IFRS 7 – Interest rate benchmark reform (2)

(1) Effective for annual periods beginning January 1, 2021

(2) Effective for annual periods beginning January 1, 2020

c. Consolidation

i. Subsidiaries

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

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

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

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

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

Goodwill is initially measured as excess of the sum of the consideration transferred and the fair value of the non-controlling interest in the subsidiary acquired over the net identifiable assets and liabilities assured. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated statement of 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, 2019 and 2018, the main subsidiary companies of Axtel were as follows:

	Country	Shareholding interest (%) 2019	2018	Functional currency
Axtel, S. A. B. de C. V. (Holding company) [3][5]	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
Avantel, S. de R. L. de C. V. (“Avantel”) [3][5]	Mexico	-	100	Mexican peso
Axes Data, S. A. de C. V. [1]	Mexico	100	100	Mexican peso
Contacto IP, S. A. de C. V. [1]	Mexico	100	100	Mexican peso
Instalaciones y Contrataciones, S. A. de C. V. [1]	Mexico	100	100	Mexican peso
Servicios Alestra, S. A. de C. V. [1][5]	Mexico	-	99.98	Mexican peso
Ingeniería de Soluciones Alestra, S. A. de C. V. [1]	Mexico	100	100	Mexican peso
Alestra USA, Inc. [2]	USA	100	100	U.S. dollar
S&C Constructores de Sistemas, S. A. de C. V. (“S&C”)	Mexico	100	100	Mexican peso
Alesre Insurance Pte, Ltd. [4]	Singapore	-	100	U.S. dollar
Estrategias en Tecnología Corporativa, S. A. de C. V. (“Estratel”) [3]	Mexico	100	100	Mexican peso
Servicios Alestra TI, S. A. de C. V. [1]	Mexico	100	100	Mexican peso
Alestra Procesamiento de Pagos, S.A. de C.V. [3]	Mexico	100	-	Mexican Peso
Administradora de Centros de Datos México, S.A. de C.V[1]	Mexico	100	-	Mexican Peso
Servicios Administrativos de Centro de Datos México, S.A. de C.V. [3]	Mexico	100	-	Mexican Peso
La Nave del Recuerdo, S.A. de C.V. [6]	México	100	-	Mexican Peso
Contacto IP FTTH de México, S.A. de C.V.[6]	México	100	-	Mexican Peso
Alestra Servicios Móviles, S.A. de C.V. [6]	México	100	-	Mexican Peso

(1) Provider of administrative services.

(2) Leasing of telecommunications and infrastructure equipment.

(3) Provider of telecommunication services.

(4) Company with no primary operations, disposed of in August 2019

(5) 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 operation of the Company at the consolidated level.

(6) Legally created companies with no operations.

As of December 31, 2019 and 2018, there are no significant restrictions for the investment in shares of the subsidiary companies mentioned above.

ii. Absorption (dilution) of control in subsidiaries

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

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

iii. Sale or disposal of subsidiaries

When the Company ceases to have control, any retained interest in the entity is remeasured at fair value, and the change in the carrying amount is recognized in the consolidated statement of 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.

iv. Associates

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

If the equity in an associate is reduced but significant influence is maintained, only a portion of the amounts previously recognized in the comprehensive (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, 2019 and 2018, the Company has no associates.

d. Foreign currency translation

i. Functional and presentation currency

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

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

ii. Transactions and balances

Transactions in foreign currencies are translated into the functional currency using the foreign exchange rates prevailing at the transaction date or valuation date when the amounts are remeasured. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing exchange rates are recognized as foreign exchange gain or loss in the consolidated statement of 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 were 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**	**2019**	**2018**	**2019**	**2018**
United States	U.S. dollar	18.85	19.68	19.27	19.24

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 under IFRS 9, in effect beginning January 1, 2018.

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, 2019 and 2018, 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, 2019 and 2018, 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 is defined as the breach threshold the period from which the recovery of the account receivable subject to analysis is marginal; in this case, 120 days for the business segment and 150 days for the government segment, which is in line with the management of internal risks.

b. Other financial instruments

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

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

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

Financial liabilities

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

Payables are obligations to pay for goods or services that have been purchased or received from suppliers in the ordinary course of business. Loans are initially recognized at fair value, net of transaction costs incurred. Loans are subsequently recognized at amortized cost; any difference between the resources received (net of transaction costs) and the settlement value is recognized in the consolidated statement of 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, 2019 and 2018, 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. As December 31, 2019 and 2018, the Company does not have derivative financial instruments designated as cash flow hedges.

Suspension of hedge accounting

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

On suspending hedge accounting, in the case of fair value hedges, the adjustment to the carrying amount of a hedged amount for which the effective interest rate method is used, is amortized to profit or loss over the maturity period. In the case of cash flow hedges, the amounts accumulated in equity as part of comprehensive (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 the finished products and products in process includes the product design cost, raw material, direct labor, other direct costs and overhead costs (based in the normal operation capacity). Excludes borrowing costs. The net realization value is the estimated sales price in the ordinary course of the business, less variable sale expenses applicable.

j. ***Prepayments***

Prepayments mainly comprise insurance and prepayments to service providers. The amounts are recorded on the basis of contractual values and are recorded monthly in the consolidated statement of 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***

Classification and valuation of leases under IAS 17, in effect through December 31, 2018

The Company as lessee

As of December 31, 2018, the classification of leases as finance or operating depended on the substance of the transaction rather than the form of the contract.

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

Leases where the Company assumes substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalized at the beginning of the lease, at the lower of the fair value of the leased property and the present value of the future minimum lease payments. If its determination was practical, in order to discount the future minimum lease payments to present value, the interest rate implicit in the lease was used; otherwise, the incremental borrowing rate of the lessee was used. Any initial direct costs of the leases were added to the original amount recognized as an asset. Each lease payment was allocated between the liability and finance charges to achieve a constant rate on the outstanding balance. The corresponding rental obligations were included in non-current debt, net of finance charges. The interest element of the finance cost was charged to the income for the year during the period of the lease, so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases were depreciated over the shorter of the asset's useful life or the lease term.

The Company as lessor

Leases for which the Company is considered a lessor were classified as financial or operating. As long as the lease terms transfer substantially all the risks and rewards of ownership to the lessee, the contract was classified as a finance lease. The other leases were classified as operating leases.

Revenues arising from operating leases were recognized in straight-line over the term of the corresponding lease. The initial direct costs incurred in the negotiation and the organization of an operating lease were added to the book value of the leased asset and were recognized in a straight line over the term of the lease. Revenues arising from financial leases were recognized as accounts receivable for the amount of the net investment of the Company in the leases.

Classification and valuation of leases under IFRS 16, in effect beginning January 1, 2019

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 an asset for right-of-use 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 an asset for right-of-use 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

As of January 1, 2019, the Company, in those cases where it acts as a lessor, maintains its accounting policy consistent with that in effect during the year ended December 31, 2018, considering the new definition of leases established by IFRS 16.

m. Intangible assets

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

Intangible assets are classified as follows:

i. Finite useful life

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

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

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

a. Trademarks

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

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

b. Licenses

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

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

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

ii. Indefinite useful life

These intangible assets are not amortized and are subject to annual impairment assessment. As of December 31, 2019 and 2018, 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.

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.

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 (loss) income

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

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 was 6.13 times and 6.78 times as of December 31, 2019 and 2018, 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,	
	2019	**2018**
Cash and cash equivalents	$ 857,742	$ 2,249,155
Restricted cash	-	93,908
Financial assets at amortized cost:		
Trade and other accounts receivable	3,310,000	2,908,133
Financial assets at fair value with changes through profit or loss (1)		
Financial instruments (zero strike call)	92,673	129,075
Derivative financial instruments (1)	-	23,591
Total financial assets	$ 4,260,415	$ 5,403,862
Financial liabilities at amortized cost:		
Current debt	$ 131,632	$ 465,828
Lease liability	866,098	-
Trade payables, related parties and sundry creditors	2,905,871	5,412,913
Non-current debt	13,836,310	15,156,918
Other non-current accounts payable	703,348	4,033
Financial liabilities measured at fair value with changes in results:		
Derivative financial instruments (1)	143,712	39,258
Total financial liabilities	$18,586,971	$21,078,950

(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, 2019 and 2018.

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

	As of December 31, 2019		As of December 31, 2018	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities:				
Debt (*)	$14,006,129	$14,737,276	$14,974,979	$14,212,680
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, 2019 and 2018 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, 2019:

	USD (translated to thousands of MXP)
Financial assets	$ 701,548
Financial liabilities	(11,019,701)
Foreign exchange monetary position	$(10,318,153)

During 2019 and 2018, Axtel contracted several derivative financial instruments, mainly forwards, to hedge this risk. These derivatives have been designated at fair value with changes through profit or loss for accounting purposes as explained in the next section of this note.

Based on the financial positions in foreign currency maintained by the Company, a hypothetical variation of 10% in the MXN/USD exchange rate and keeping all other variables constant, would result in an effect of $1,031,815 on the consolidated statement of operations and shareholders' equity.

Financial instruments and derivative financial instruments

Financial instruments

As of December 31, 2019 and 2018, the Company has entered into Over the Counter (OTC) transaction agreements with Bank of America Merrill Lynch (BAML) and Corporativo GBM, S. A. B. de C. V. (GBM) denominated "Zero Strike Call" or options, at a price closely resembling zero. The asset underlying these instruments is the market value of Axtel's CPOs. The contracts signed prior to October 2016 can only be settled in cash. As from that date, the term of the contracts yet to be settled was extended and as a result of this negotiation, the settlement method can be in cash or in shares, as decided by the Company. The original term of these contracts is 6 months and can be extended by mutual agreement between the parties; however, as this is an American type option, the Company can exercise it at any given time prior to the date of maturity.

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

Where:

Number of options = defined in the contract

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

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

Exercise price = 0.000001 pesos

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

As of December 31, 2019 and 2018, 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 2019	Fair value 2018
Bank of America Merrill Lynch	30,384,700	2010 y 2009	CPO's Axtel	$92,673	$ 90,243
Corporativo GBM, S. A. B. de C. V.[1]	13,074,982	2015 y 2014	CPO's Axtel	-	38,832
				$92,673	$129,075

For the year ended December 31, 2019, the changes in fair value of the Zero Strike Calls gave rise to an unrealized loss of $8,919 (unrealized loss of $35,202 for the year ended December 31, 2018), recognized in the consolidated statement of operations within financial income and expenses.

(1) The financial instrument was exercised in May and June 2019.

Derivative financial instruments

Beginning on January 1, 2018, the Company designated its derivative financial instruments contracted during the year as cash flow accounting hedges. As of December 31, 2019 and 2018, the Company maintained the following derivative financial instruments:

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

Characteristics	2019	2018
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	$(137,177)	$ 23,591
Change in the fair value of the swap to measure ineffectiveness	$(135,329)	$ 24,477
Reclassification from OCI to income	$653	$214
Recognized in OCI net of reclassifications	$136,524	$(23,804)
Ineffectiveness recognized in income	-	-
Change in the fair value of the hedged item to measure ineffectiveness	$147,478	$(25,031)
Change in the fair value DFI vs. 2018	$(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, 2019 and 2018, the results of the effectiveness of this hedge confirms that the hedge relationship is highly effective, given that the changes in the fair value and cash flows of the hedged item are compensated in the range of effectiveness established by the Company. The prospective effectiveness test resulted in 100% and 99%, in 2019 and 2018, 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 93% and 95%, in 2019 and 2018, 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, it has designated forward contracts as accounting hedges, where the hedged item is represented by obligations in USD and by the exchange fluctuation of the bond; the conditions of the derivative financial instruments and the considerations of their valuation as hedging instruments are mentioned below:

Characteristics	**2019**	**2018**
Currency	USD	USD
Total notional	US$15,900	US$93,868
Average strike	19.6560 MXN/USD	20.54 MXN/USD
Maturity	May 12, 2020	Jan-July 2019
Forward's book value	$(6,535)	$(39,258)
Change in the fair value of the forwards to measure ineffectiveness	$(6,535)	$(39,258)
Reclassification from OCI to income	$4,043	$ 4,316
Recognized in OCI net of reclassifications	$2,492	$35,762
Ineffectiveness recognized in income	-	-
Change in the fair value of the hedged item to measure ineffectiveness	$6,535	$39,258
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%, 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 USD obligations in 2019 and 46% for 2018. 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 and 2018, no ineffectiveness was recognized in gain or loss.

Interest rate and cash flow risk

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

As of December 31, 2019, 33% of Axtel's total debt generates variable interest rates while the remaining 67% generates fixed interest rates.

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

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

As of December 31, 2019, 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 $45,835 and $(45,835) 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, 2019, 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 4% and 3% of the Company’s total accounts receivable as of December 31, 2019 and 2018, respectively. Additionally, revenues associated to Company A for the years ended December 31, 2019 and 2018 was 2% and 2%, respectively.

Company B accounts for 4% and 5% of the Company’s total accounts receivable as of December 31, 2019 and 2018, respectively. Additionally, revenues related to Company B for the years ended December 31, 2019 and 2018 was 3% and 2%, respectively.

As of December 31, 2019 and 2018, the allowance for impairment totaled $1,208,739 and $2,172,343 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, 2019			
Current debt	$ 131,632	$ -	$ -
Trade payable, related parties and creditors	4,288,038	-	-
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
December 31, 2018			
Current debt	$ 123,847	$ -	$ -
Trade payable, related parties and creditors	7,938,944	-	-
Derivative financial instruments	39,258	-	-
Non-current debt	-	2,275,469	12,699,510
Finance leases	341,981	398,133	-
Non-accrued interest payable	1,222,225	4,410,428	1,629,496

The Company expects to meet its obligations with the cash flows provided by operations and/or cash flows provided by its main shareholders. Furthermore, the Company has access to credit lines as mentioned in Note 17.

As of December 31, 2019, the Company has short-term uncommitted, unused lines of credit of more than US$16,000 ($301,600). Additionally, as of December 31, 2019, Axtel has medium-term committed lines of credit of US$50,000 ($942,500).

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, 2019 and 2018:

	As of December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
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)

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

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

The specific valuation techniques used to value financial instruments include:

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

5. Critical accounting estimates and significant judgments

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

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

a. Long-lived assets

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

The Company reviews depreciable and amortizable assets on an annual basis for signs of impairment, or when certain events or circumstances indicate that the book value may not be recovered during the remaining useful life of the assets. For intangible assets with an indefinite useful life, the Company performs impairment tests annually and at any time that there is an indication that the asset may be impaired.

To test for impairment, the Company uses projected cash flows, which consider the estimates of future transactions, including estimates of revenues, costs, operating expenses, capital expenditures and debt service. In accordance with IFRS, discounted future cash flows associated with an asset or CGU are compared to the book value of the asset or CGU being tested to determine if impairment exists whenever the aforementioned discounted future cash flows are less than its book value. In such case, the carrying amount of the asset or group of assets is reduced to its value in use, unless its fair value is higher.

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

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

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

c. Recoverability of deferred tax assets

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

d. Commitments and contingencies

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

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

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

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

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:

	2019	2018
Cash on hand and in banks	$139,197	$ 488,987
Short-term investments	718,545	1,760,168
Total cash and cash equivalents	$857,742	$2,249,155

7. Restricted cash

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

The restricted cash as of December 31, 2018 of $93,908 represents the trust balance over applicable disputes for 2008 and 2010 and is shown in the consolidated statement of financial position as a non-current asset. On May 10, 2018, Alestra was granted a favorable ruling and the withdrawal of the amounts contributed to the trust and their corresponding returns, obtaining the proceeds of $59,005 and $19,874 in November 2018.

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 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:

	2019	2018
Current:		
Trade accounts receivable	$3,634,751	$4,832,433
Allowance for impairment of accounts receivable (1)	(1,208,739)	(2,172,343)
Trade accounts receivable, net	2,426,012	2,660,090
Recoverable taxes	34,674	685,748
Notes and other accounts receivable	850,528	192,938
Related parties	23,460	$55,105
	$3,344,674	$3,593,881

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

	2019	2018
Initial balance	$2,172,343	$2,089,484
Write-off of doubtful accounts	45,631	114,207
Allowance for doubtful accounts for the year(2)	(1,009,235)	(31,348)
Ending balance	$1,208,739	$2,172,343

(2) The increases in the allowance in 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, 2019

Clients or group of clients	Probability range of default	Severity of loss
Carriers	1.0% - 100.0%	85.74%
Business	1.6% - 100.0%	85.74%
Government	0.3% - 100.0%	68.78%

As of December 31, 2018

Clients or group of clients	Probability range of default	Severity of loss
Massive	5.6% - 100.0%	96.00%
Carriers	0.9% - 100.0%	87.50%
Business	1.0% - 100.0%	87.50%
Government	2.9% - 100.0%	70.00%

9. Inventories

As of December 31, 2019 and 2018, inventories of $93,982 and $104,802, respectively, were composed by materials and consumables.

The cost of inventories recognized as an expense and included in the cost of sales amounted to $141,649 and $161,390 for 2019 and 2018, respectively. As of December 31, 2019 and 2018, there were no inventories pledged as collateral.

10. Property, plant and equipment

	Buildings	Telecommunications network	Office equipment	Computers	Vehicles	Leasehold improvements	Land	Investments in process	Total
	Depreciable assets					Non-depreciable assets			
For the year ended December 31, 2018									
Net opening balance	$1,055,169	$ 14,677,418	$100,880	$ 388,607	$ 31,901	$ 92,862	$481,905	$2,447,068	$19,275,810
Translation effect	-	(143)	-	-	-	-	-	-	(143)
Additions	-	173,668	90	3,284	2,740	13	-	2,371,685	2,551,480
Transfers	29,319	3,459,853	15,809	133,509	3,147	27,232	-	(3,668,869)	-
Transfers held for sale	-	(300,307)	(49)	(1,188)	(344)	(102)	-	(5,845)	(307,835)
Disposals		(1,432,324)	(1,376)	(3,950)	(1,290)	(572)	-	(74,201)	(1,513,713)
Depreciation charge recognized in the year	(28,305)	(3,604,028)	(21,878)	(207,955)	(15,160)	(22,749)	-	-	(3,900,075)
Ending balance	$1,056,183	$ 12,974,137	$ 93,476	$ 312,307	$ 20,994	$ 96,684	$481,905	$1,069,838	$16,105,524
As of December 31, 2018									
Cost	$1,458,435	$ 53,888,456	$519,966	$4,961,739	$192,885	$ 630,384	$481,905	$1,069,838	$63,203,608
Accumulated depreciation	(402,252)	(40,914,319)	(426,490)	(4,649,432)	(171,891)	(533,700)	-	-	(47,098,084)
Net carrying amount as of December 31, 2018	$1,056,183	$ 12,974,137	$ 93,476	$ 312,307	$ 20,994	$ 96,684	$481,905	$1,069,838	$16,105,524
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 charges 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

Of the total depreciation expense, $2,879,263 and $2,896,444 were charged to cost of sales, $122,709 and $157,938 to selling and administrative expenses, and $162,780 and $845,693 in discontinued operations in 2019 and 2018, 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, 2019 and 2018, the Company capitalized $15,434 and $27,216, respectively, of borrowing costs related to qualifying assets of $410,323 and $495,455, respectively. These amounts were capitalized based on an interest rate of 7.63% and 8.98%, 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, 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 reclasification	-	217,449	721	51,092	6,862	276,124
Initial balances as of January 1, 2019	680,405	217,449	721	51,092	6,862	956,529
Final balances as of December 31, 2019	440,826	187,192	642	28,324	4,263	661,246
Accumulated depreciation	$(238,408)	$ (30,256)	$ (79)	$(22,768)	$(2,599)	$(294,110)

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

Rent expenses from low-value asset leases	$ -
Rent expenses from short-term leases	$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, 2018	$ 36,339	$ 48,920	$ 149,416	$ 325,687	$ 378,836	$ 149,778	$419,536	$1,508,512
Additions	-	-	-	-	228,145	237,062		465,207
Transfers	-	-	-	-	(572)	572		-
Amortization charges recognized in the year	(29,131)	(15,196)	(19,240)	(265,055)	(158,791)	(80,919)		(568,332)
Ending balance as of December 31, 2018	$ 7,208	$ 33,724	$ 130,176	$ 60,632	$ 447,618	$ 306,493	$419,536	$1,405,387
Cost	$ 797,142	$ 258,904	$ 516,600	$ 809,793	$1,751,440	$ 709,484	$419,536	$5,262,899
Accumulated amortization	(789,934)	(225,180)	(386,424)	(749,161)	(1,303,822)	(402,991)	-	(3,857,512)
Ending balance as of December 31, 2018	$ 7,208	$ 33,724	$ 130,176	$ 60,632	$ 447,618	$ 306,493	$419,536	$1,405,387
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

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, $2,131 and $37,417 were charged to cost of sales, $443,108 and $530,915 to selling and administrative expenses in 2019 and 2018, 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.

Through another subsidiary called Alestra Innovación Digital, S. de R.L. de C.V. (previously Alestra Comunicación), there will be 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).

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

Service	Period	Expiration
Single concession for commercial use (1)	30 years	2046
Various radio spectrum frequencies for the provision of point-to-point and point-to-multipoint microwave links (2) (3)	20 years	2038
Fixed wireless access (4)	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.

(2) The Plenary of the Federal Telecommunications Institute (IFT for its Spanish initials), at its XXV Ordinary Session held on October 16, 2019, approved the Resolution by Agreement P/IFT/161019/515, authorizing Axtel, S.A.B. de C.V. the extension of the term for 30 (thirty) concessions to use, leverage and exploit frequency bands of the radio spectrum for specific use in the frequency bands of 10 GHz., 15 GHz., 23 GHz. and 38 GHz.

(3) The Plenary of the Federal Telecommunications Institute, at its XXV Ordinary Session held on October 16, 2019, approved the Resolution by Agreement P/IFT/161019/514, authorizing Alestra Innovación Digital, S. de R.L. de C.V. the extension of the term for 30 (thirty) concessions to use, leverage and exploit frequency bands of the radio spectrum for specific use in the frequency bands of 7 GHz. and GHz.

On January 13, 2020, we expressed the IFT our acceptance of the new conditions. The term of 30 business days to pay the consideration, which will expire on February 25, 2020, is running. However, this term is subject to be extended for 15 more business days. This did not represent any adjustment to the consolidated financial statements as of December 31, 2019.

(4) The Plenary of the Federal Telecommunications Institute, at its XXII Ordinary Session held on September 18, 2019, approved the Resolution by Agreement P/IFT/180919/463, authorizing Axtel, S.A.B. de C.V. the extension of the term for 9 (nine) concessions to use, leverage and exploit frequency bands of the radio spectrum for specific use in the frequency band 3.5 GHz.

On January 15, 2020, we expressed the IFT our acceptance of the new conditions. The term of 30 business days to pay the consideration, which will expire on February 27, 2020, is running. However, this term is subject to be extended for 15 more business days. This did not represent any adjustment to the consolidated financial statements as of December 31, 2019.

Impairment testing of goodwill

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

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

Impairment sensitivity analysis for goodwill and intangibles

As of December 31, 2019, the Company carries out a sensitivity analysis on the impact of a possible increase of one percentage point in the discount rate and a decrease in the long-term growth rate, and no impairment loss resulted from this sensitivity analysis.

The following describes the discount rates and long-term growth rates used for the years ended December 31, 2019 and 2018:

	2019	**2018**
Discount rate, after tax	10.5%	10.5%
Long-term growth rate	3.6%	3.9%

13. Other non-current assets

	2019	**2018**
Investments of shares	$294,530	$294,535
Prepaid connection leases	21,238	34,000
Guarantee deposits	41,192	83,850
Prepaid maintenance	301,242	220,150
Other	83,695	83,752
Total other non-current assets	$741,897	$716,287

14. Trade and other accounts payable

Trade and other accounts payable are analyzed as follows:

	2019	**2018**
Current:		
Trade accounts payable	$2,897,853	$3,547,032
Related parties	8,018	1,865,881
Value added tax and other federal and local taxes payable	880,277	1,556,036
Accrued expenses payable	207,603	186,116
Other	175,265	268,913
	$4,169,016	$7,423,978
Non-current:		
Related parties	$ 703,348	$ 4,033

15. Provisions

	Litigation	**Restructuring** [(1)]	**Total**
As of January 1, 2018	$18,391	$ 99,517	$117,908
Additions	6,238	288,755	294,993
Payments	(1,000)	(99,517)	(100,517)
As of December 31, 2018	$23,629	$ 288,755	$312,384
Additions	14,187	86,070	100,257
Payments	(9,325)	(183,125)	(192,451)
As of December 31, 2019	$28,491	$ 191,700	$220,190

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

Provisions as of December 31, 2019 and 2018 are short-term.

16. Deferred income

Deferred income movements during the year are shown as follows:

	2019	**2018**
Beginning balance	$ 536,452	$ 312,121
Increases	1,054,418	1,308,057
Recognized income of the year	(1,437,641)	(1,083,726)
Ending balance	$ 153,229	$ 536,452

17. Debt

	2019	2018
Banco Nacional de Comercio Exterior, S.N.C	$ 3,263,529	$ 3,263,529
Syndicated loan	1,320,000	1,570,000
Senior Notes [(1)]	9,422,600	9,841,450
Export Development Canada (EDC)	-	300,000
Other finance leases [(2)]	-	740,113
Accrued interest payable	111,853	123,847
Issuance costs	(150,040)	(216,193)
Total debt	13,967,942	15,622,746
Current portion of debt	(131,632)	(465,828)
Non-current debt	$13,836,310	$15,156,918

(1) Non-bank borrowings.

(2) Finance leases entered into with banking institutions at approximate rates of 6% for those denominated in U.S. dollars and the interbank interest rate (TIIE) plus 3% and 5.5% for those denominated in Mexican pesos, with maturities ranging between 1 and 3 years. As of January 1, 2019, these financial leases are part of the balance of lease liabilities. See note 18.

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	2019	2018
Bancomext[(1)]	Mexico	MXP	TIIE + 2.10%	10.34%	30/08/2028	Quarterly	$ 3,263,529	$ 3,263,529
Syndicated loan	Mexico	MXP	TIIE+2.75%	11.04%	15/12/2022	Monthly	1,320,000	1,570,000
Senior Notes	International	USD	6.38%	6.64%	14/11/2024	Semi-annually	9,422,600	9,841,450
EDC	Canada	MXP	TIIE + 1.19%	10.51%	01/06/2021	Monthly	-	300,000
Total bank loans							14,006,129	14,974,979
Current portion of Bancomext debt							(19,779)	-
Debt issuance costs							(150,040)	(216,193)
Finance leases and other							-	398,132
Total non-current debt							$13,836,310	$15,156,918
Current maturities of financial leases[(2)] and others							131,632	465,828
Total Debt							$13,967,942	$15,622,746

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

(2) As of January 1, 2019, these financial leases are part of the balance of lease liabilities. See note 18.

As of December 31, 2019, annual maturities of non-current debt are as follows:

	2021	2022	2023	2024 onwards	Total
Bank loans	$89,005	$1,448,564	$168,121	$ 2,858,060	$ 4,563,750
Senior Notes	-	-	-	9,422,600	9,422,600
	$89,005	$1,448,564	$168,121	$12,280,660	$13,986,350

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, 2019 and 2018 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 2.75 times from the execution date of the contract until the second quarter of 2019 and cannot be less than 3.0 times from there on.

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

   As of December 31, 201, this factor cannot exceed 4.25 times. For each quarter of 2019, this factor cannot exceed 4.00 times; from the first quarter of 2020 and from there on this factor cannot exceed 3.50 times.

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

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

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

As of December 31, 2019 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, 2019
Current portion -	
USD:	$186,801
MXN:	264,974
Current lease liability	$451,775
Non-current portion -	
USD:	$233,049
MXN:	633,049
	866,098
Less; Current portion of lease liability	451,775
Non-current lease liability	$414,323

As of December 31, 2019 and 2018, changes in the lease liability related to the finance activities in accordance with the statement of cash flow are integrated as follows:

Initial balance	$ 680,405
Financial lease reclassification	740,113
Beginning balance	1,420,518
New contracts	7,103
Write-offs	-
Adjustment to liability balance	-
Interest expense from lease liability	99,072
Lease payments	(638,067)
Exchange (loss) gain	(22,528)
Ending balance	$ 866,098

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

	December 31, 2019
Less than 1 year	$473,476
Over 1 year and less than 5 years	415,759
Over 5 years	12,989
Total	$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 $282,312 and $246,145 as of December 31, 2019 and 2018, 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:

	2019	**2018**
Obligations in the consolidated statement of financial position:		
Pension benefits	$405,110	$341,510
Post-employment medical benefits	8,076	4,382
Defined contribution additional liability	282,312	246,145
Liability recognized in the consolidated statement of financial position	$695,498	$592,037
Charge in the consolidated statement of operations for:		
Pension benefits	$ 57,093	$ 49,936
Medical benefits to retirement	447	502
	$ 57,540	$ 50,438
Remeasurements for accrued employee benefit obligations recognized in other comprehensive income for the year	$ 70,625	$ 60,405

Pension and post-employment medical benefits

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

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

	2019	**2018**
Present value of obligations equal to the liability in the consolidated statement of financial position	$695,498	$592,037

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

	2019	**2018**
As of January 1	$345,892	$346,489
Current service cost	25,023	25,489
Financial cost	32,517	24,949
Actuarial remediations	70,625	(60,405)
Past service cost	7,343	28,018
Benefits paid	(7,893)	(7,241)
Reductions	(60,321)	(11,407)
As of December 31	$413,186	$345,892

The primary actuarial assumptions were as follows:

	2019	**2018**
Discount rate	7.00%	9.50%
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%	$(26,304)	$29,631
Medical inflation rate	1%	$ 8,369	$ 5,952

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:

	2019	**2018**
Current income tax	$(73,606)	$(65,148)
Deferred income tax	86,766	33,815
Prior years' adjustment	2,131	(6,005)
Income tax benefit (expense)	$ 15,291	$(37,338)

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

	2019	2018
(Loss) before taxes	$(353,309)	$(969,323)
Statutory rate	30%	30%
Taxes at statutory rate	105,993	290,797
(Plus) less tax effect on:		
Tax effects of inflation	(145,179)	207,404
Non-deductibles	(43,483)	(593,250)
Other differences, net	97,960	57,711
Total income tax benefit (expense) charged to income	$ 15,291	$ (37,338)
Effective rate	(4)%	4%

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

	2019	2018
Tax loss carryforwards	$1,274,483	$1,420,015
Allowance for doubtful accounts	626,165	602,503
Property, plant and equipment	719,079	463,368
Provisions and other	262,916	363,087
Intangible assets and other	(6,356)	24,102
Deferred tax asset	$2,876,287	$2,873,075
Property, plant and equipment	$ (3,489)	$ (3,753)
Intangible assets and other	2,730	(254)
Deferred tax liability	$ (759)	$ (4,007)

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, 2019 for which a tax asset was recognized amount to $4,248,278. The Company reduced tax losses by $201,500 as their realization was not considered probable.

Tax losses as of December 31, 2019 expire in the following years:

Year of expiration	Amount
2021	$ 364,493
2022	71,953
2023	143,522
2024 onwards	3,869,810
	$4,449,778

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

	2019			2018		
	Before taxes	Tax charged (credited)	After taxes	Before taxes	Tax charged (credited)	After taxes
Effect of currency translation	$ (2,468)	$ -	$ (2,468)	$ (86)	$ -	$ (86)
Derivative financial instruments of hedging	(127,057)	38,117	(88,940)	(11,958)	3,588	(8,370)
Remeasurements of employee benefits	(70,625)	21,187	(49,438)	60,403	(18,123)	42,280
	$(200,150)	$59,304	$(140,846)	$48,359	$(14,535)	$33,824

21. Shareholders' equity

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. The stock repurchase reserve balance is $93,464 as of December 31, 2019.

After the above-mentioned events, the Company's capital stock as of December 31, 2019 was $464,368 and was comprised of 20,074,913,404 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, 2018	20,249,227,481
Ending balance December 31, 2018	20,249,227,481
Repurchase of shares	174,314,077
Shares as of December 31, 2019	20,074,913,404

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, 2019, the tax value of the CUFIN and tax value of the Capital Contribution Account (CUCA from Spanish) amounted to $224,985 and $25,256,564, 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.

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

Condensed information related to the consolidated statement of operations of the discontinued operation for the year ended December 31, 2018 and for the period ended May 1, 2019:

	2019	2018
Revenues	$302,367	$2,772,752
Cost of sales	(263,283)	(1,315,779)
Gross profit	39,084	1,456,973
Administration and selling expenses	(317,567)	(1,240,689)
Operating income	(278,483)	216,284
Income before taxes	(278,483)	216,284
Income taxes	83,545	(64,885)
Net income	(194,938)	151,399
Gain on sale of the discontinued operation	519,016	1,949,940
Income from discontinued operations, net of income taxes	$324,078	$2,101,339

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.

As of the date of the transaction held in 2018, the gain on sale of discontinued operations for $1,949,940, net of taxes, was determined by comparing the sale price of $4,712,821, less the net assets sold, transaction costs and tax effects for a total of $2,762,881.

Condensed information regarding the cash flows of the discontinued operation for the year ended December 31, 2018 and for the period ended May 1, 2019:

	2019	2018
Cash flows from operating activities	$ (29,633)	$1,061,978
Cash flows from investment activities	1,150,000	3,956,544

23. Revenues

a. Income for services:

	2019	2018
Voice	$ 1,873,716	$ 2,121,360
Managed networks	4,513,604	4,194,997
Internet data	3,962,505	3,859,259
Administrative applications	360,404	381,961
Hosting	740,579	752,241
System integration	557,797	562,400
Security	410,300	539,591
Cloud services	269,069	233,115
Other services	95,659	143,560
Total	$12,783,633	$12,788,484

b. Income by geographical areas:

	2019	2018
Mexico	$12,743,540	$12,731,680
Outside Mexico	40,093	56,804
Total	$12,783,633	$12,788,484

24. Expenses classified by their nature

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

	2019	2018
Service cost [1]	$ 3,353,046	$ 3,357,117
Employee benefit expenses (Note 27)	2,456,136	2,452,171
Maintenance	797,674	855,109
Depreciation and amortization	3,578,541	3,622,713
Advertising expenses	63,864	62,680
Energy and fuel consumption	351,402	336,061
Travel expenses	53,864	53,828
Lease expenses	892,752	1,101,378
Technical assistance, professional fees and administrative services	250,946	60,688
Other	148,120	398,188
Total	$11,946,345	$12,299,933

(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 (expenses) income, net

	2019	2018
Disposals of property, plant and equipment due to damage and obsolescence	$(113,462)	$(74,574)
(Loss) gain on sale of property, plant and equipment [**]	(5,046)	226,568
Other income, net	55,055	54,935
Total other (expenses) income, net	$ (63,453)	$206,929

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

26. Financial result, net

	2019	2018
Financial income:		
Interest income on short-term bank deposits	$ 54,679	$ 41,297
Other financial income	5,574	10,832
Total financial income	$ 60,253	$ 52,129
Financial expenses:		
Interest expense on bank loans	$ (562,108)	$ (952,172)
Interest expense on senior notes	(644,331)	(728,052)
Interest expense on leases	(99,072)	-
Expenses related to other interest and commissions	(1,626)	(437)
Financial expenses related to employee benefits	(32,517)	(24,949)
Other financial expenses	(129,098)	(163,008)
Total financial expenses	$(1,468,752)	$(1,868,618)
Exchange fluctuation gain (loss), net:		
Gain on exchange fluctuation	$ 2,855,976	$ 3,334,378
Loss on exchange fluctuation	(2,565,701)	(3,147,490)
Exchange fluctuation gain, net	$ 290,275	$ 186,888

27. Employee benefit expenses

	2019	2018
Salaries, wages and benefits	$2,028,983	$2,010,260
Social security fees	335,709	358,557
Employee benefits	25,023	25,489
Other fees	66,421	57,865
Total	$2,456,136	$2,452,171

28. Transactions with related parties

Balances with related parties as of December 31, 2019 and 2018, were as follows:

			December 31, 2019				
			Loans received from related parties				
	Accounts receivable	Accounts payable	Amount	Interest	Currency	Expiration date MM/DD/YY	Interest rate
Holding company	$ -	$ -					
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			

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

(1) Indemnification (see Note 2).

Transactions with related parties for the years ended December 31, 2019 and 2018, 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, 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

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

For the year ended December 31, 2019, compensation and benefits paid to the Company's main officers totaled $106,080 ($97,139 in 2018), 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, 2019, 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).

In January 2018, the Company was notified of two writs of amparo (one in which Axtel is a stakeholder and another one by Alestra Comunicación), 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).

These cases are being appealed; however, they are currently suspended on the SCJN's instruction at the request of the IFT, since they are related to a Telcel lawsuit (A.R. 329/2019) which the SCJN is attending; therefore, they are currently awaiting a decision.

In addition, in January 2019, the Company (where Axtel is the stakeholder) was notified of a writ of amparo filed by Telcel against the rates settled in 2018 (also as a Virtual Mobile Operator) for the 2019 period by the IFT, which is currently pending, like the 2018 rate trial; this matter was also suspended until the SCJN resolves a related matter.

As of the date of issuance of the consolidated financial statements, the Company and its advisors believe that the rates will prevail on the basis of the decisions obtained before Ifetel, since it is considered that the most adverse scenario is forwarding the matter to that Institute for the creation of a specific regulation for 2018 and 2019 rates, within which the current rate could be ratified. Therefore, to date, the Company has recognized and paid the cost on the basis of these rates and there are no provisions associated with this contingency.

b. Telefónica Group.

In January 2018, the Company was notified of the writ of amparo (where Axtel is the stakeholder) filed by Telefónica against the rates for the 2018 period by the IFT in compliance with the judgment of the amparo 1100/2015 (Zero Rate).

In addition, in June 2018, the Company (where Axtel is the stakeholder) was notified of a writ of amparo filed by Telefónica against the rates decided in 2017 (as Virtual Mobile Operator) for the 2018 period by the IFT.

In January 2019, the Company (where Axtel is the stakeholder) was notified of a writ of amparo filed by Pegaso against the rates decided in 2018 (as Virtual Mobile Operator) for the 2019 period by the IFT.

These cases are now suspended on the SCJN’s instruction at the request of the IFT, since they are related to a Telcel lawsuit (A.R. 329/2019), which SCJN is attending; therefore, they are currently awaiting a decision.

As of the date of issuance of the consolidated financial statements, to the present day, the Company and its advisors believe that the rates will prevail on the basis of the decisions obtained before Ifetel, since it is considered that the most adverse scenario is forwarding the matter to that Institute for the creation of a specific regulation for the AEP for 2018 and 2019 rates, within which the current rate could be ratified. Therefore, to date, the Company has recognized and paid the cost on the basis of these rates and there are no provisions associated with this contingency.

c. Grupo Iusacell (today AT&T).

In January 2018, the Company was notified (where Axtel is the stakeholder) of the writ of amparo filed by ATT against the rates for the 2018 period by the IFT, this matter was finally resolved in favor of the Company.

As the rates prevailed; therefore, it has paid and recognized the cost based on such rates, and there are no provisions associated with this contingency.

In January 2019, the Company (where Axtel is the stakeholder) was notified of a writ of amparo filed by ATT against the rates determined by the IFT for the 2019 period (as Vitual Mobile Operator).

This case is suspended on the SCJN's instruction at the request of the IFT, since they are related to a Telcel lawsuit (A.R. 329/2019), which the SCJN is attending; therefore, it is currently awaiting a decision.

As of the date of issuance of the consolidated financial statements, the Company and its advisors believe that the rates will prevail on the basis of the decisions obtained before Ifetel, since it is considered that the most adverse scenario is forwarding the matter to that Institute for the creation of a specific regulation for the AEP for 2018 and 2019 rates, within which the current rate could be ratified. Therefore, to date, the Company has recognized and paid the cost on the basis of these rates and there are no provisions associated with this contingency.

d. Interconnection disagreements with Telmex & Telnor.

i. With regard to the lawsuits filed by Telmex-Telnor with the Federal Court of Administrative Justice (TFJA for its Spanish initials) for 2010 rates, these have been decided in favor of the Axtel-Avantel, Alestra, and only the direct amparo against the compliance with the judgment issued by the TFJA filed by Telmex against the rates determined for Avantel for the same year is pending a decision.

ii. In May 2011, Cofetel also approved a reduction in long-distance call termination rates for that year.

Telmex challenged this decision before the SCT, but that appeal was dismissed. Telmex has challenged the Federal Court of Administrative Justice, which ruled in favor of the Company (Axtel-Avantel, Alestra); however, Telmex filed a writ of amparo against that judgment, which is pending.

In addition, a final favorable judgment was obtained for the lawsuit filed by Telnor (and Axtel-Avantel-Alestra as stakeholders) against 2011 rates.

iii. With regard to the lawsuit filed for the period 2012, having Alestra as a stakeholder, it was decided in favor by the TFJA, and Telmex filed a direct amparo, which is under appeal.

iv. In July 2019 and with the last payment of 97.5 million pesos, the trust agreement with BBVA Bancomer was terminated, having recovered a total of $566.1 million corresponding to amounts objected and deposited on the Trust (including returns), arising from 2008, 2009 and 2010 interconnection disagreements.

v. Under the Federal Telecommunications and Broadcasting Act ("LFTR" for its Spanish initials), from August 13, 2014 to December 31, 2018, the Predominant Economic Agent (AEP for its Spanish initials) in the telecommunications sector, Telmex is prohibited from charging the interconnection fees for termination of calls ending in its network. Telmex challenged that condition, which was resolved by the Second Chamber of the Supreme Court of Justice of the Nation in the amparos under review 1306/2017 (Telmex) and 1307/2017 (Telnor), granting the protection to those companies.

The effect of such amparos is that during the period from August 13, 2014 to December 31, 2018, the free "zero" rate prevails, resolving the SCJN that the Federal Telecommunications Institute should decide a fee for Telmex/Telnor calls ending on another concessionaire's network beginning 2019.

vi. In January 2017, the Company was notified of a writ of amparo filed by Telmex-Telnor (having Alestra, Axtel-Avantel and Alestra Comunicación as stakeholders) against the rates decided for 2017 period by IFT, which today is finally resolved in favor of the Company.

As the rates prevailed based on the decisions obtained in favor of the Company; therefore, it has recognized the cost on the basis of such rates, and there are no provisions associated with this contingency.

vii. In December 2017, the Company was notified of a writ of amparo filed by (Axtel-Avantel as stakeholders) against the rates decided for the 2016 period by IFT (in compliance with an amparo judgment), this matter is under appeal.

The Company and its advisors believe that the rates will prevail on the basis of the decisions obtained in favor of the Company; therefore, it has recognized the cost on the basis of these rates and there are no provisions associated with this contingency.

viii. In addition, in January 2018, the Company (Axtel, Alestra Comunicación, and Axtel as VMO) was notified of several writs of amparo against the rates decided (for VMO) for the 2018 period by the IFT.

One of the amparos is at a trial level (OMV), while the other one is under appeal; note that the latter is likely to be suspended on the SCJN's instruction, since it is related to a Telcel lawsuit (A.R. 329/2019) attracted by the SCJN.

The writ of amparo filed by Telnor (and Alestra Comunicación) for 2018 rates, was finally decided in favor of the Company.

As of the date of issuance of the consolidated financial statements, the Company and its advisors believe that the rates will prevail on the basis of the decisions obtained before Ifetel, since it is considered that the most adverse scenario is forwarding the matter to that Institute for the creation of a specific regulation for the AEP for 2018 and 2019 rates, within which the current rate could be ratified. Therefore, to date, the Company has recognized and paid the cost on the basis of these rates and there are no provisions associated with this contingency.

ix. In January 2019, the Company (Axtel) was notified of a writ of amparo against the rates decided for the 2019 period by IFT, which is suspended by SCJN's instructions.

As of the date of issuance of the consolidated financial statements, the Company and its advisors believe that the rates will prevail on the basis of the decisions obtained before Ifetel, since it is considered that the most adverse scenario is forwarding the matter to that Institute for the creation of a specific regulation for the AEP for 2018 and 2019 rates, within which the current rate could be ratified. Therefore, to date, the Company has recognized and paid the cost on the basis of these rates and there are no provisions associated with this contingency.

x. In 2016, the IFT initiated a process of reviewing the preponderance measures imposed on América Móvil as a holding company of Telmex and Telcel. As a result of this review, the agreement P/IFT/EXT/270217/119 was issued, whereby the IFT plenary amends and adds the measures imposed on the AEP in 2014, which tend to generate a sector where there are competition conditions in the telecommunications sector. As of December 31, 2019, the predominant agent status of Telmex, Telnor and Telcel has not been changed.

xi. As of the date of issuance of the consolidated financial statements, the Company and its advisors believe that the rates of the IFT and Cofetel judgments will prevail based on the judgments obtained in favor of the Company; therefore, it has recognized the cost on the basis of these rates, and there are no book provisions associated with this contingency. Similarly, the process of reviewing preponderance measures continues.

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, while the lawsuits concerning the Secretariat for Social Development are under appeal.

With regard to the lawsuits concerning the Merger Opposition agreements, the Secretariat of Labour and Social Welfare and CONAFOR 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.

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

i. Axtel contracted from Comercializadora Vedoh sponsorship given by the Team to Axtel in automotive equipment in the NASCAR series. In 2018, Comercializadora Vedoh filed a commercial ordinary lawsuit whereby it demanded a payment of $1,065 from Axtel for team sponsorships in 2014 and 2015.

   In connection with this case, a court settlement agreement was made in June 2019, whereby the Company made a payment of US$800.

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

i. 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.

   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.

ii. In August 2018, Axtel was notified of a compensating procedure processed at the ASF, claiming the total amount of $5,219, the foregoing resulted from an audit conducted to the Ministry of Health for the provision of telephone service; said case was challenged and won in accordance with the interests of the Company at the trial level, the judgment was challenged by the administrative authority; therefore, the trial is in an appealing process.

In this regard, the Company and its advisors consider an average possibility of a favorable judgment for the Company.

II. Commitments

The Company has contractual commitments related to office space and telecommunication tower agreements. The aggregate minimum future payments corresponding to these contractual commitments are as follows:

- Less than 1 year	$ 770,232
- Between 1 and 5 years	4,320,858
- More than 5 years	-
Total	$5,091,090

30. Segment information

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

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

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

In 2019, the Company entered into a final agreement resulting in the total divestment of the massive segment, which is presented as a discontinued operation described in Note 22.

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 Director General.

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

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

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

I. Financial information by segments:

		2019	
	Business	**Government**	**Total**
Sales by segment	$10,624,856	$2,158,777	$12,783,633
Service cost	(2,200,298)	(1,152,748)	(3,353,046)
Expenses	(831,651)	(212,003)	(1,043,654)
Business unit contribution (BUC)	7,592,907	794,026	8,386,933
	71%	37%	66%
Unallocated expenses			(3,921,096)
EBITDA			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			-
Loss before tax			$ (353,308)

	2018		
	Business	Government	Total
Sales by segment	$10,313,312	$ 2,475,172	$12,788,484
Service cost	(1,913,099)	(1,444,018)	(3,357,117)
Expenses	(863,090)	(164,926)	(1,028,016)
Business unit contribution (BUC)	7,537,123	866,228	8,403,351
	73%	35%	66%
Unallocated expenses			(4,010,584)
Adjusted EBITDA without merger expenses			4,392,767
EBITDA of discontinued operations			3,847,605
Adjusted EBITDA			8,240,372
Impairment of non-current assets			(74,574)
Depreciation and amortization			(3,622,713)
Depreciation and amortization of discontinued operations			(845,693)
Less the effects of discontinued operations [1]			(3,001,912)
Operating income			695,480
Financial result, net			(1,664,803)
Financial results of discontinued operations, net			-
Loss before tax			$ (969,323)

(1) The items of the discontinued operation are comprised of the operating income of the massive segment plus the gain on sale of the discontinued operation of $519,016 and $1,949,940 for 2019 and 2018, respectively, presented in Note 22, gross of the corresponding taxes. Additionally, the effects reflected in the results by segment of 2018, consider the operating profit generated by the massive segment in that year.

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, 2019 and through January 31, 2020, (issuance date of the consolidated financial statements), and identified the following:

a) Given what is disclosed in Note 2b, on January 8, 2020, the Company announced the final closure of the strategic agreement with Equinix to strengthen its IT and cloud solutions offering. The valuation of this transaction is US$175 million, while Axtel holds a minority stake in the new entity. Excluding operating expenses and the balance in custody, the resources of approximately US$157 million will be used to strengthen the Company's financial structure. The Company did not have an impact on cash flows due to tax consequences, as it applied tax loss carryforwards of $2,644,367.

No event or transaction represented adjustments to the amounts reported as of December 31, 2019.

32. Authorization to issue the financial statements

On January 31, 2020, the issuance of the accompanying consolidated financial statements was authorized by Sergio Rolando Zubirán Shetler, Chief Executive Officer, Adrián de los Santos Escobedo, Chief Financial Officer, and José Salvador Martín Padilla, Corporate Controller.

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

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EXHIBIT C

ANNUAL REPORT OF THE ACTIVITIES OF THE AUDIT AND

CORPORATE PRACTICES COMMITTEE

axtel

INFORME ANUAL DEL COMITÉ DE AUDITORÍA Y PRÁCTICAS SOCIETARIAS

19 de febrero de 2021

CONSEJO DE ADMINISTRACIÓN
DE AXTEL, S.A.B. de C.V.

En cumplimiento de lo dispuesto por el Artículo 43 de la Ley del Mercado de Valores y en mi carácter de Presidente del Comité de Auditoría y Prácticas Societarias de Axtel, S.A.B. de C.V. ("Axtel" o la "Sociedad"), así como, en representación de los demás consejeros independientes integrantes de dicho Comité, les presentamos un reporte sumario de las actividades desempeñadas por dicho Comité durante el ejercicio social terminado el 31 de diciembre de 2020.

Este informe se presenta, con base a información recibida por este órgano, y tomando en cuenta los informes, opiniones y/o comunicados de directivos relevantes y de los auditores externos e internos, todos ellos de la Sociedad, sobre los temas que le competen al Comité.

I. Actividades en relación con los Estados Financieros.

1. Se revisaron los estados financieros de Axtel y subsidiarias, por los ejercicios terminados el 31 de diciembre de 2019 y 2020, formulados en base a las Normas Internacionales de Información Financiera (IFRS, por sus siglas en inglés) y se analizaron con los auditores externos de la Sociedad su dictamen sobre dichos estados financieros y las notas a los

mismos, presentados al Consejo de Administración para su proposición a las correspondientes Asambleas Generales Ordinarias anuales de Accionistas; y

2. Se analizaron los respectivos proyectos de aplicación de resultados de los ejercicios mencionados, presentado al Consejo de Administración para su proposición a las correspondientes Asambleas Generales Ordinarias anuales de accionistas de fechas 25 de febrero de 2020 y 5 de marzo de 2021, respectivamente.

II. **Actividades en relación con las operaciones de la Sociedad y sus subsidiarias, en materia de prácticas societarias.**

1. Se analizó y revisó el desempeño y la remuneración integral de los directivos relevantes;

2. Se realizaron las investigaciones necesarias para estar en aptitud de informar respecto de: (i) la inexistencia de operaciones significativas con personas relacionadas; y (ii) la ausencia de dispensas para el aprovechamiento de negocios que correspondan a la sociedad y/o a sus subsidiarias, por parte de personas relacionadas;

3. Se tuvo conocimiento y participación en el inicio del proceso de sucesión en la Dirección General ante la decisión del Ing. Rolando Zubirán Shetler, de tomar los beneficios de su jubilación y retirarse de la Sociedad; en consecuencia, se ratificó la propuesta de designar al Ing. Eduardo Escalante Castillo como Director General Interino con fecha efectiva del 22 de enero de 2021; y

4. Se dio seguimiento a la formalización de los acuerdos de las asambleas de accionistas y del Consejo de Administración en materia de prácticas societarias.

III. **<u>Actividades en relación con la auditoría externa e interna de las operaciones de la Sociedad y sus subsidiarias.</u>**

1. Se revisó el desempeño de la firma de auditoría externa de Axtel y subsidiarias, proponiendo después del análisis, el recomendar al Consejo de Administración, la ratificación de la contratación de los servicios de Galaz, Yamazaki, Ruiz, Urquiza, S.C. ("Deloitte"), así como el importe de los honorarios, tanto de los servicios de auditoría externa como de los servicios distintos al de auditoría externa de estados financieros básicos;

2. Se analizaron los programas de auditoría presentados por los auditores externos;

3. Se autorizó la contratación de los servicios distintos al de auditoría externa de estados financieros básicos proporcionados por Deloitte, no encontrándose situaciones que comprometan su independencia;

4. Se evaluó el desempeño de la firma de auditoría externa, así como el de la persona responsable de la misma;

5. Se revisó y analizó con los auditores externos de la Sociedad el dictamen sobre los mecanismos de control interno adoptados por la Sociedad y sus subsidiarias;

6. Se revisó el plan de acción con medidas preventivas y correctivas a las observaciones de la auditoría externa; particularmente lo relativo a (i) la corrección de las deficiencias significativas señaladas; y (ii) la inmaterialidad de los ajustes propuestos no registrados;

7. Se dio seguimiento por parte de la Sociedad, del cumplimiento de las obligaciones aplicables en las "Disposiciones de carácter general aplicables a entidades y emisoras supervisadas por la Comisión Nacional Bancaria y de Valores que contraten servicios de auditoría externa de estados financieros básicos";

8. Se analizaron los avances y resultados de los programas de control y auditoría interna; incluyendo, la determinación de áreas de oportunidad para mejorar la efectividad de los sistemas de auditoría interna;

9. Se analizó la administración del programa de adquisición de acciones propias;

10. Se analizaron los efectos de las modificaciones a las políticas contables aprobadas; y

11. Se dio seguimiento a la formalización de los acuerdos de las asambleas de accionistas y del Consejo de Administración, en materia de auditoría.

IV. **Actividades en relación con la pandemia causada por el virus SARS-CoV2 (COVID 19).**

Se revisaron las medidas tomadas por la Sociedad para prevenir los contagios asociados con el virus y en su caso, para mitigar sus consecuencias. Se apoyó la medida adoptada por la administración de mantener al personal administrativo laborando bajo la modalidad de "home office", así como el nuevo modelo de gestión "Axtel Digital". Se revisaron los planes y programas de capacitación ofrecidos a los colaboradores para proporcionarles información y recomendaciones que los auxiliasen en adoptar conductas dentro y fuera de los centros de trabajo para minimizar las infecciones y las fuentes de contagio, así como la creación de un fondo voluntariado para contingencias, el control de gasto de inversión, así como la implementación de procesos de alerta máximo ante ataques cibernéticos.

Atentamente,

Enrique Meyer Guzmán
Comité de Auditoría y Prácticas Societarias

axtel

INFORME ANUAL DEL COMITÉ DE AUDITORÍA Y PRÁCTICAS SOCIETARIAS

17 de febrero de 2020

CONSEJO DE ADMINISTRACIÓN
DE AXTEL, S.A.B. de C.V.

En cumplimiento de lo dispuesto por el Artículo 43 de la Ley del Mercado de Valores y en mi carácter de Presidente del Comité de Auditoría y Prácticas Societarias de Axtel, S.A.B. de C.V. ("Axtel" o la "Sociedad"), así como, en representación de los demás consejeros independientes integrantes de dicho Comité, les presentamos un reporte sumario de las actividades desempeñadas por dicho Comité durante el ejercicio social terminado el 31 de diciembre de 2019.

Este informe se presenta, con base a información recibida por este órgano, y tomando en cuenta los informes, opiniones y/o comunicados de directivos relevantes y de los auditores externos e internos, todos ellos de la Sociedad, sobre los temas que le competen al Comité.

I. Actividades en relación con los Estados Financieros.

1. Se revisaron los estados financieros de Axtel y subsidiarias, por los ejercicios terminados el 31 de diciembre de 2018 y 2019, formulados en base a las Normas Internacionales de Información Financiera (IFRS, por sus siglas en inglés) y se analizaron con los auditores externos de la Sociedad su dictamen sobre dichos estados financieros y las notas a los mismos, presentados al Consejo de Administración para su proposición a

las correspondientes Asambleas Generales Ordinarias anuales de Accionistas; y

2. Se analizaron los respectivos proyectos de aplicación de resultados de los ejercicios mencionados, presentado al Consejo de Administración para su proposición a las correspondientes Asambleas Generales Ordinarias anuales de accionistas de fechas 26 de febrero de 2019 y 25 de febrero de 2020, respectivamente;

II. **Actividades en relación a las operaciones de la Sociedad y sus subsidiarias, en materia de prácticas societarias.**

1. Se analizó y revisó el desempeño y la remuneración integral de los directivos relevantes;

2. Se realizaron las investigaciones necesarias para estar en aptitud de informar respecto de: (i) la inexistencia de operaciones significativas con personas relacionadas; y (ii) la ausencia de dispensas para el aprovechamiento de negocios que correspondan a la sociedad y/o a sus subsidiarias, por parte de personas relacionadas; y

3. Se dio seguimiento a la formalización de los acuerdos de las asambleas de accionistas y del Consejo de Administración en materia de prácticas societarias.

III. **Actividades en relación a la auditoría externa e interna de las operaciones de la Sociedad y sus subsidiarias.**

1. Se revisó el desempeño de la firma de auditoría externa de Axtel y subsidiarias, proponiendo después del análisis, el recomendar al Consejo

de Administración, la ratificación de la contratación de los servicios de Galaz, Yamazaki, Ruiz, Urquiza, S.C. ("Deloitte"), así como el importe de los honorarios, tanto de los servicios de auditoría externa como de los servicios distintos al de auditoría externa;

2. Se analizaron los programas de auditoría presentados por los auditores externos;

3. Se autorizó la contratación de los servicios distintos al de auditoría externa de Estados Financieros Básicos proporcionados por Deloitte, no encontrándose situaciones que comprometan su independencia;

4. Se evaluó el desempeño de la firma de auditoría externa, así como el de la persona responsable de la misma;

5. Se revisó y analizó con los auditores externos de la Sociedad el dictamen sobre los mecanismos de control interno adoptados por la Sociedad y sus subsidiarias;

6. Se revisó el plan de acción con medidas preventivas y correctivas a las observaciones de la auditoría externa; particularmente lo relativo a (i) la corrección de las deficiencias significativas señaladas; y (ii) la inmaterialidad de los ajustes propuestos no registrados;

7. Se dio seguimiento por parte de la Sociedad, del cumplimiento de las obligaciones aplicables en las "Disposiciones de carácter general aplicables a entidades y emisoras supervisadas por la Comisión Nacional Bancaria y de Valores que contraten servicios de auditoría externa de estados financieros básicos";

8. Se analizaron los avances y resultados de los programas de control y auditoría interna; incluyendo, la determinación de áreas de oportunidad para mejorar la efectividad de los sistemas de auditoría interna;

9. Se analizó la administración del programa de adquisición de acciones propias;

10. Se analizaron los efectos de las modificaciones a las políticas contables aprobadas;

11. Se revisó la implementación de la herramienta que permite la identificación y gestión de conflictos de segregación de funciones "*SoD Self Services*";

12. Se analizó la monetización total por parte de Axtel, S.A.B. de C.V. respecto del negocio masivo de FTTX (fibra óptica al hogar o negocio); y

13. Se dio seguimiento a la formalización de los acuerdos de las asambleas de accionistas y del Consejo de Administración, en materia de auditoría.

Atentamente,

Enrique Meyer Guzmán
Comité de Auditoría y Prácticas Societarias

axtel

INFORME ANUAL DEL COMITÉ DE AUDITORÍA Y PRÁCTICAS SOCIETARIAS

21 de febrero de 2019

CONSEJO DE ADMINISTRACIÓN
DE AXTEL, S.A.B. de C.V.

En cumplimiento de lo dispuesto por el Artículo 43 de la Ley del Mercado de Valores y en mi carácter de Presidente del Comité de Auditoría y Prácticas Societarias de Axtel, S.A.B. de C.V. ("Axtel" o la "Sociedad"), así como, en representación de los demás consejeros independientes integrantes de dicho Comité, les presentamos un reporte sumario de las actividades desempeñadas por dicho Comité durante el ejercicio social terminado el 31 de diciembre de 2018.

Este informe se presenta, con base a información recibida por este órgano, y tomando en cuenta los informes, opiniones y/o comunicados de directivos relevantes y de los auditores externos e internos, todos ellos de la Sociedad, sobre los temas que le competen al Comité.

I. Actividades en relación con los Estados Financieros.

1. Se revisaron los estados financieros de Axtel y subsidiarias, por los ejercicios terminados el 31 de diciembre de 2017 y 2018, formulados en base a las Normas Internacionales de Información Financiera (IFRS, por sus siglas en inglés) y se analizaron con los auditores externos de la Sociedad su dictamen sobre dichos estados financieros y las notas a los mismos, presentados al Consejo de Administración para su proposición

a las correspondientes Asambleas Generales Ordinarias anuales de Accionistas; y

2. Se analizaron los respectivos proyectos de aplicación de resultados de los ejercicios mencionados, presentado al Consejo de Administración para su proposición a las correspondientes Asambleas Generales Ordinarias anuales de accionistas de fechas 27 de febrero de 2018 y 26 de febrero de 20149 respectivamente;

II. **<u>Actividades en relación a las operaciones de la Sociedad y sus subsidiarias, en materia de prácticas societarias.</u>**

1. Se analizó y revisó el desempeño y la remuneración integral de los directivos relevantes;

2. Se realizaron las investigaciones necesarias para estar en aptitud de informar respecto de: (i) la inexistencia de operaciones significativas con personas relacionadas; y (ii) la ausencia de dispensas para el aprovechamiento de negocios que correspondan a la sociedad y/o a sus subsidiarias, por parte de personas relacionadas; y

3. Se dio seguimiento a la formalización de los acuerdos de las asambleas de accionistas y del Consejo de Administración en materia de prácticas societarias.

III. **<u>Actividades en relación a la auditoría externa e interna de las operaciones de la Sociedad y sus subsidiarias.</u>**

1. Se revisó el desempeño de la firma de auditoría externa de Axtel y subsidiarias, proponiendo después del análisis, el recomendar al Consejo de Administración, la ratificación de la designación de Galaz, Yamazaki,

Ruiz, Urquiza, S.C. ("Deloitte"), así como el importe de las remuneraciones, tanto de los servicios de auditoría externa como de los servicios distintos al de auditoría externa;

2. Se analizaron los programas de auditoría presentados por los auditores externos;

3. Se analizaron los servicios adicionales o complementarios proporcionados por Deloitte, no encontrándose situaciones que comprometan su independencia;

4. Se evaluó el desempeño de la firma de auditoría externa, así como el de la persona responsable de la misma;

5. Se revisó la naturaleza y monto de los ajustes propuestos por la firma de auditoría eterna, no registrados por la administración y se confirmó su inmaterialidad;

6. Se revisó y analizó con los auditores externos de la Sociedad el dictamen sobre los mecanismos de control interno adoptados por la Sociedad y sus subsidiarias;

7. Se analizaron los programas de auditoría interna y los resultados de dichos programas durante los ejercicios 2017 y 2018, incluyendo las auditorías especiales a los negocios, a los proyectos de inversión, las especiales, las relativas a tecnologías y sistemas de información;

8. Se revisó y analizó el alcance y las respectivas implicaciones de las nuevas "Disposiciones de carácter general aplicables a entidades y emisoras supervisadas por la Comisión Nacional Bancaria y de Valores que contraten servicios de auditoría externa de estados financieros

básicos"; habiéndose dado seguimiento a la correspondiente adhesión por parte de la Sociedad y sus subsidiarias a tales Disposiciones;

9. Se analizó la nueva norma contable "IFRS 16- Arrendamientos";

10. Se analizaron los avances y resultados de los programas de control y auditoría interna; incluyendo, la determinación de áreas de oportunidad para mejorar la efectividad de los sistemas de auditoría interna;

11. Se analizaron las descripciones y efectos de las modificaciones a las políticas contables aprobadas;

12. Se revisó y analizó con los auditores externos de la Sociedad, el programa de auditoría externa del ejercicio 2018, así como el programa de auditoría interna correspondiente a ese mismo ejercicio; y

13. Se dio seguimiento a la formalización de los acuerdos de las asambleas de accionistas y del Consejo de Administración, en materia de auditoría; y

14. Se dio seguimiento a la formalización de los acuerdos de las asambleas de accionistas y del Consejo de Administración, en materia de auditoría.

Atentamente,

Bernardo Guerra Treviño

Comité de Auditoría y Prácticas Societarias