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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, 2018

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 27, 2019.

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
"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. See section *1.4) Relevant Recent Events* of this Annual Report.
"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, 2018 and 2017 and as of and for the years ended on December 31, 2017 and 2016.
"Avantel"	Both Avantel Concesionaria and Alestra Comunicación S. de R.L. de C.V.
"Avantel Concesionaria"	Avantel, S. de R.L. de C.V.
"Avantel Infraestructura"	Avantel Infraestructura, S. de R.L. de C.V., which changed its name to Alestra Comunicación, 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.
"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 Bancomer"	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
"Big Data"	Voluminous amounts of structured or unstructured data that demands fast, innovative and cost-effective ways to process for review and decision-making.

"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 pursuant to the resolutions issued on the Official Gazette from to time to time.
"CNBV"	Comisión Nacional Bancaria y de Valores. *(Mexican Banking and Securities Commission)*
"Cofetel"	Comisión Federal de Telecomunicaciones *(Federal Telecommunications Commission)*, former industry regulator until September 9, 2013.
"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 the B Series Shares 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.
"FTTx"	Fiber to the Home or Business.
"GHz"	Gigahertz (Thousands of millions of cycles per second) Frequency relative to a time unit
"GPON"	Gigabit Passive Optical Network
"G Tel"	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, taking over all the duties from Cofetel.
"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)*
"Innovation Hub"	Axtel's Innovation Center, a flexible and configurable space designed to foster creativity, encourage collaboration, generate and develop ideas and technological prototypes.
"IP"	Internet Protocol
"IT"	Information Technologies
"Grupo Iusacell"	The following companies, together or individually: Iusacell PCS, S.A. de C.V., Iusacell PCS de México, S.A. de C.V., Portatel del Sureste, S.A. de C.V., Comunicaciones Celulares de Occidente, S.A. de C.V., Sistemas Telefónicos Portátiles Celulares, S.A. de C.V., Telecomunicaciones del Golfo, S.A. de C.V., Operadora Unefón, S.A. de C.V. and SOS Telecomunicaciones, S.A. de C.V.
"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 provides 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, for more information see section 1.4) Recent important events of this Annual Report. As a result of said divestment, the operations of the Mass Market Segment are classified as discontinued operations, for more information see Note 20 of the Audited Financial Statements in this Annual Report.
"Megacable"	Megacable Holdings, S.A.B. de C.V. including subsidiary and affiliate companies.
"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 related primarily to "Big Data", mobility, the internet of things, social networks, security and virtualization solutions
"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, infrastructure or access point, part of a telecommunications network that is connected to other points via fiber optic or microwave links. It may have equipment installations to provide voice, transport and/or data services.
"Promotora de Sistemas"	Promotora de Sistemas de Teleinformática, S.A. de C.V.
"SCT"	Secretaría de Comunicaciones y Transportes. *(Ministry of Communications and Transport)*
"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.
"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.
"Tel Holding"	Telecomunicaciones Holding Mx, S. de R.L. de C.V.
"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). It is published, from time to time by the Mexican Central Bank (Banco de México)
"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
“United States”	The United States of America
“VPN”	Virtual Private Network
WiMAX	Worldwide Interoperability for Microwave Access, Standardized protocol of wireless broadband access known as the standard 802.16e that can be fixed, nomadic, portable and mobile.

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 offers Information and Communications Technology (ICT) solutions to the enterprise segment, which is comprised of corporate, mid to large-sized businesses, financial institutions and wholesale customers or carriers, and to government entities.

Axtel's portfolio of services to the enterprise and government segments includes advanced managed networks and Information Technology (IT) solutions such as hosting, data center and managed security, among others.

Axtel considers it has the second largest fiber network capacity in Mexico, with an infrastructure of approximately 40,430 kilometers of fiber and more than 6,700 square meters of Data Center space certified in accordance with the highest industry standards, with which it can provide coverage to over 90% of the Mexican market.

Axtel's vision is to create value through innovation for its customers by becoming the best alternative in their digital experience, and its mission is to enable organizations to become more productive through digitalization. The Company's strategic goal is to become a leader in selected areas of IT and telecom solutions, with differentiated services tailored to the enterprise and government segments. Consistent with this goal, five business strategies were defined: (1) drive growth through differentiated IT and Telecom service solutions for the enterprise and government segments; (2) leverage Axtel's existing expertise, network and relationship with global players to expand its services and offer new solutions, increasing the customer base to improve the profitability of the operation of its assets; (3) participate in public sector opportunities with selected government entities with particular emphasis on continuing existing services; (4) compete based on service quality and innovative product offerings; (5) aim the Company's culture towards innovation.

The Company's future growth is expected to come from value-added IT and telecom services as customers' needs continue to evolve into more sophisticated data communications systems and applications that require the convergence of telecommunications and information technology.

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, granted by Rodolfo Vela de León, Public Notary No. 80 in Monterrey, Nuevo León. The first deed of such letter was recorded at the Public Registry of Property and Commerce in Monterrey, Nuevo León, under number 1566, folio 273, volume 417, Book 3, Second Part of Mercantile Companies, Section of Trade on August 5, 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 page at *axtelcorp.mx*, including information regarding its products and services.

On August 31, 2007, an Extraordinary General Shareholders Meeting was carried out, where among other things, the following resolutions were adopted: to carry out a split of the shares that were outstanding, by means of the issuance and delivery to the shareholders of three new shares for each of the shares of the same class and series that they owned.

Under the approval of these resolutions of the Extraordinary General Shareholders Meeting of the Company regarding the split, an update of the shares registered in the RNV was requested to the CNBV so that a total of 8,769,353,223 nominative shares, without par value representing the common stock of the Company were registered, of which 96,636,627 were Series "A" and 8,672,716,596 were Series B shares.

In accordance with the resolutions adopted by the Extraordinary Shareholders' Meeting held on January 25, 2013, the Company issued 972,814,143 Series "B" Class "I" shares which will be held in the treasury of the Company, to be subscribed subsequently upon the conversion of Notes convertibles to shares in charge of the Company. Likewise, 1,114,029 Series "A" shares were issued.

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 December 15, 2015, the Company published an information prospectus on the Mexican Stock Exchange, whereby it made official the intention to enter into a merger agreement between Axtel, as merging company, with Onexa, as merged company. 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. Alestra began operations in 1997 and became a leading provider of IT and telecommunications services focused on the enterprise segment with a portfolio of solutions including managed networks and IT services such as security, system integration and cloud services.

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

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.

The Company's registered office is within the municipality of San Pedro Garza García, Nuevo León, and its headquarters are located in Blvd. Díaz Ordaz Km. 3.33 L-1, Colonia Unidad San Pedro, 66215 San Pedro Garza García, Nuevo León, Mexico. Its telephone number is (+52) (81) 8114-0000 and its web page is *axtelcorp.mx*.

As for the twelve-month period ended December 31, 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.

During 2017, Axtel generated revenues, operating income and EBITDA for the amounts of Ps. 12,544 million, Ps. 935 million and Ps. 4,300 million, respectively. EBITDA eliminating non-recurring expenses arising from the merger with Alestra and the benefit derived from the sale of telecommunications towers to MATC was Ps. 3,888 million. Axtel recorded a profit before taxes of Ps. 21 million, a net income from discontinued operations of Ps. 329 million and a net income of Ps. 62 million. As of 2017, the Company's cash totaled Ps. 1,258 million, Ps. 162 million of restricted cash and Ps. 20,423 million of total debt.

During 2016, Axtel generated revenues, operating loss and EBITDA for the amounts of Ps. 13,937 million, Ps. 209 million and Ps. 3,673 million, respectively. EBITDA eliminating non-recurring expenses arising from the merger with Alestra was Ps. 4,511 million. Axtel recorded a loss before taxes of Ps. 5,071 million and a net loss of Ps. 3,599 million. As of 2016, the Company's total cash was Ps. 1,447 million, Ps. 153 million of restricted cash and Ps. 21,514 million of total debt. 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, as well as the portion not included in the sale, will continue to be operated by Axtel as it continues looking for divesture opportunities, are classified as discontinued according to the requirements from the IFRS 5 "Non-current assets kept for sale and discontinued operations". Therefore, they are presented separately in the consolidated income statement of 2018 and 2017 as a comparative year. For more information, see *Note 20* from the *Audited Financial Statements* included in this *Annual Report.*

In 2018, 81% from the revenues were from the enterprise segment, including large corporations, small, medium and large businesses, and financial institutions, among others; 19% of the revenues came from the government segment.

Regarding the performance of the CPO, as of December 31, 2018, 2017 and 2016, the Company's share closed at Ps. 2.97, Ps. 3.78 and Ps. 3.52 per CPO respectively. See details throughout the years in Section 5.2) Stock Performance in the Stock Market.

1.3) Recent relevant events

2019

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 will be 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 in exchange for an economic consideration of 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; continues 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.

Loan disposal – Export Development Canada

On August 31, 2018, the Company received debt funding of Ps. 300 million associated with a long-term loan from Export Development Canada, due in 2021 with monthly capital payments and accruing interest at a rate at a 91-day

TIIE plus 1.875%. The proceeds obtained from this loan were used mainly to pay Ps. 200 million of short term debt with BBVA Bancomer.

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 of February 8, 2018

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.

2017

Issuance and prepayment of debt

On November 9, 2017, the Company placed Senior Notes in the international market and listed on the Irish Stock Exchange under a private offering under Rule 144A and Regulation S 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 existing debt from the syndicated loan signed on January 15, 2016, and certain issuance costs and expenses.

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 a variable interest rate with a margin on the TIIE rate applicable according to the leverage ratio between 1.875% and 3.25%. The proceeds obtained were used to prepay the remaining debt from the syndicated loan signed on January 15, 2016, denominated mainly in dollars.

Shareholding in ALTAN

On November 17, 2016, the consortium ALTAN Redes, S.A.P.I. de C.V. ("ALTAN") won the international contest promoted by the Ministry of Communications and Transport, for the construction and operation of the Wholesaler Shared Network.
The Company has a shareholding equivalent to 1.9634% of Altan's capital stock, which represents an investment of US$15 million, of which US$1 million was paid in cash in January 2017 and the remaining through a service provision plan. It is important to mention that the shares of all shareholders have been granted as collateral through their involvement in a trust fund to support financing required by ALTAN and previously agreed between the partners.

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

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

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

Adjustment in ALFA's shareholding

On July 18, 2017 and in accordance with the resolutions adopted at the General Shareholders' Extraordinary Meeting held on January 15, 2016 relating to the merger of Onexa, S.A. de C.V. in Axtel, 1,019,287,950 Class "I" Series "B" shares were delivered to ALFA, representing an additional ownership to ALFA of 2.50% in Axtel's capital stock. The shares were previously held in Axtel's treasury and released as part of the consideration for the merger. Such adjustment in the consideration for the merger is based upon the terms originally approved and resulting from the application of a formula based on the average exchange rate of the Mexican Peso and U.S. dollar from an 18-month period as of January 15, 2016.

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

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

The transaction was structured in stages according to the delivery of documentation and obtaining relevant regulatory authorizations. The initial stage of the transaction was performed on June 30, 2017; the last stage concluded in March 2018.

Merger of Alestra, S. de R.L. de C.V. - Axtel's Extraordinary General Shareholders' Meeting of April 27, 2017

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.

Loss Absorption - Axtel's Extraordinary General Shareholders' Meeting of March 10, 2017

On March 10, 2017, by means of an Extraordinary General Shareholder Meeting, the shareholders of the Company resolved to reduce the Company's minimum fixed capital stock in the amount of Ps. 9,868.3 million, in order to absorb prior years' retained losses in the aggregate amount of Ps. 10,513.0 million, having previously applied the additional paid-in capital of Ps. 644.7 million. Such capital reduction was carried out without modifying or reducing the number of shares that represent the Company's capital stock.

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 they have a presence or those risks that they consider not important, may also affect their business and Value of the investment.

Information other than historical information included in this 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 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 rates pressure, all of which may negatively affect its operating margins and results of operations.

The telecommunications industry in Mexico is becoming more competitive. With the convergence of services, competition has intensified, and we compete with established telecom companies such as Telmex, Alestra and Maxcom, with cable companies such as Megacable and Televisa Cable Companies; with mobile operators such as América Móvil, Iusacell and Telefónica.

Axtel has experienced and expects to continue experiencing pricing pressures, primarily because of:

- focus of our competitors on increasing their market share;
- deployment of significant capital resources that result in rate subsidies;
- recent technological advances that permit substantial increases in the transmission capacity of both new and existing fiber optic networks, resulting in long distance overcapacity;
- greater participation of traditional fixed-line service providers;
- further penetration of former cable television operators in consumer markets where we operate;
- increase in maturities of long-term agreements with customers, in exchange for benefits;
- the continued convergence and bundling up of telecom and IT services; and
- market reconfiguration due to the entrance of AT&T in 2015 and possible entrance by other participants, such as investment funds and other international telecommunications companies.

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

Certain competitors, including Telmex, a subsidiary of America Movil and AT&T, have significantly greater financial resources and scale than we do. In particular, Telmex's nationwide network and concessions, as well as its established and long-standing customer base, give it a substantial competitive advantage.

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

Competition in the ICT industry has increased significantly as our 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 services, including capturing future growth in providing ICT services in Mexico. This strategy has several risks, among which the following are included:

- Continuous, rapid and important changes in technology and new products in the field of information technology, the data and internet services, and Axtel's possible inability to have access to or to deploy alternative or new technology.
- High levels of capital investment required to provide information technology services, data and internet services, and to implement significant related technological changes.
- The highly competitive nature of the ICT market, which may include the entrance of new market competitors with significant capital or technological resources.
- The stronger competitive position of some of Axtel's competing companies, including Telmex, which is the dominant provider of telecommunications services in Mexico and may be in a better position to serve enterprise customers, which are Axtel's main market target.
- Limited flexibility in the Mexican regulatory framework applicable to telecommunications to obtain approval to offer new technological changes
- Strict, unfavorable or delayed interpretations by regulators, related to the roll-out of our services, the offering of new services, or the integration of our services; and
- Additional competition from companies providing telecom, IT and video services.

In the event that Axtel is not successful in implementing its strategy of focusing on the ICT services in Mexico, and is unable to obtain the benefits of these high margin operations, the results of its operations and financial situation could be adversely affected.

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

Axtel has more than 18,000 enterprise and government clients in Mexico; including national and multinational corporations, wholesale customers or carriers, large and medium-sized companies in the financial sector, retail, education, manufacturing, among others, and federal, state and municipal entities of the government sector.

In 2018, 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 relation 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 in 2018 and 2017.

Contracts with the government segment have higher levels of uncertainty.

Revenue resulting from contracts with the government segment represented 19% and 20% of total revenues for both 2018 and 2017, respectively. The agreements are subject to a higher level of uncertainty since they can be rescinded if certain conditions are not met and cannot be extended at will, since a public tender process should be carried out for an extension. 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 interruptions or failures in its information technology systems, as well as cyber-attacks or other network or IT security breaches.

Axtel has sophisticated information technology systems and infrastructure to support its business, including process control technology. These systems may be susceptible to interruptions due to fires, floods, earthquakes, loss of electricity, telecommunication failures and similar events. The failure of any of Axtel's information technology systems can cause interruptions in its operations, adversely affecting its sales and profitability. It cannot be assured that the business continuity plans will be fully effective in case of interruption or failures in the Company's information technology systems.

In addition, the technologies, systems and networks of Axtel and its trading partners may become targets for cyber-attacks or infractions of information security that could result in unauthorized publication, misuse or loss of confidential information or other alterations in information or business operations. Axtel depends largely on its technological infrastructure and that of its service providers, whom are not immune to attacks. Although Axtel has not suffered material losses related to cyberattacks, it cannot be guaranteed that it will not occur in the future and may adversely affect its operations or financial situation. In addition, if Axtel fails to prevent the theft of valuable information, such as clients' financial data and confidential information, or if it fails to protect the privacy of the confidential data of its customers and employees, the business may be adversely affected. As cyber threats evolve, Axtel may be required to incur in additional costs to improve its security measures or to remedy any information security vulnerabilities.

***Risk that investments do not generate the expected income*.**

In the years 2018 and 2017, Ps. 1,871 million and Ps. 2,507 million, respectively, were invested in network and infrastructure and intangibles. Considering the investment in the Mass Market business that is recorded as a discontinued operation, in 2018 and 2017, Ps. 2,381 million and Ps. 3,049 million, were invested respectively. For the year 2016, Ps. 3,186 million was invested in network and infrastructure. 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 Axtel does not complete the divestment of the rest of the cities of the fiber segment of the Mass Market that were not part of the sale to Televisa, it could increase its operating costs and decrease profitability.

Axtel divested the fiber business of the Mass Market Segment located in Monterrey, San Luis Potosí, Aguascalientes, Mexico City, Ciudad Juárez and in the municipality of Zapopan. If Axtel fails to materialize the divestment of the rest of the Mass Market Business cities in the future, its operational efficiency could be affected by the cost of operating a small business with small volume to achieve economies of scale, negatively affecting its operating results.

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

Axtel's main suppliers include Huawei Tecnologies de Mexico, S.A. of C.V., Cisco Systems Inc., Dasan Zhone Solutions Inc., Ericsson Telecom, S.A. de C.V., Avaya Communication of Mexico, S.A. de C.V., Alcatel Lucent de Mexico, S.A. de C.V., and Coriant Mexico, S. de R.L. de C.V., 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 avoid its services becoming obsolete. Delays in the implementation and availability of services based on new technologies or access networks could adversely affect the results of operations.

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.

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 our 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.

The operations of Axtel are dependent upon its ability to protect its network infrastructure.

The Company's operations depend 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 our facilities or at the sites of our switches could cause interruptions in the services we provide. The failure of a switch would result in the interruption of services to customers served by that switch, until necessary repairs are made, or it's been replaced. Repairing or replacing damaged equipment may be costly. Any damage or failure that causes interruptions in our 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. If Axtel is not able to attract, hire or retain highly trained, talented and committed personnel, its ability to implement its business objectives may be adversely affected.

Any deterioration in the relationships with our employees or the increase in labor costs can have a negative impact on our business, financial condition, results of operations and prospects.

At the end of 2018, Axtel had 7,644 employees throughout Mexico. Any significant increase in labor costs, deterioration of labor relations or work stoppages in any of our locations, due to union activities, employee turnover, changes in the Federal Labor Law or the interpretation thereof, could have an adverse material effect in the business, financial condition, operating results and prospects. A strike or labor dispute could, in some cases, affect Axtel's ability to provide services to customers, which could result in a reduction in net sales. Approximately 11% of the workforce is unionized. Under the collective bargaining agreement, Axtel is obliged to negotiate salaries annually and other benefits semiannually. There are no other workers or employees of the Company assigned to other unions. If an important conflict arises, the business, financial condition, operating results and prospects of Axtel could be adversely affected

Axtel's operations are subject to general litigation risks.

Axtel is involved in ongoing litigation that arises in the ordinary course of business. The litigation may include collective actions involving consumers, shareholders, employees or injured persons, and claims related to commercial, labor, antitrust, securities or environmental issues. In addition, the process of litigating cases, even if successful, can be costly and can approximate the cost of the damages sought. These actions may also expose the Company to adverse publicity that could negatively affect its brands and reputation and / or the customer's preference for its services. Recently, the Mexican Congress passed a law that allows consumers and other market participants to file class action lawsuits. There is very little experience in Mexico with collective lawsuits and the judicial precedent with respect to these laws is extremely limited. In addition, there may be claims or expenses that are not insured by insurance companies or that are not fully covered by the Company's insurance, that exceed the amount of insurance coverage or that are not insurable at all. 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 interconnection, 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 maintain several dedicated links and last-mile-access infrastructure under lease agreements with Telmex. If Telmex breaches the agreed contractual conditions, or if Telmex discontinues the provision of services before The Company is able to migrate these customers to its own network, there could be a material adverse effect on its operations, business, financial condition and operating results.

Since July 4, 2014, when the LFTR was announced, the IFT determined that America 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.

Because of this ruling, 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 early 2017, the IFT concluded the process of reviewing the preemptive measures imposed on América Móvil, as a holding company of Telmex and Telcel, and issued a resolution on February 27, 2017 (published on March 14, 2017), which confirms the existing measures and added new measures, such as the functional separation of certain assets used for the unbundling of the local network and for the dedicated links. 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 the business, financial condition and results of operations.

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

Derivative financial instruments are used mainly to manage the risk associated with interest rates and to fully or partially cover the obligations contracted in foreign currency, such as debt service and investments of assets in dollars. The practice is not to carry out derivative transactions for speculative purposes, however, it is possible that there will still be access to derivative financial instruments as an economic hedge against certain business risks, even though these instruments do not qualify for hedge accounting. according to 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 will deteriorate substantially. This could prevent its counterparties from fulfilling their obligations to Axtel, which would expose the Company to market risks and could have a material adverse effect on it.

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 in the future.

It is probable that derivative financial instruments can be subject to margin calls in case the threshold or line of credit established by the parties is exceeded. If Axtel was to enter such derivative financial instruments, the cash required to cover such margin calls could be substantial and could reduce the funds available for its operations or other capital needs.

It is possible that Axtel does not have enough insurance 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 general manager 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, certain service contracts with affiliates have entered 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. It is likely that Axtel will continue to carry out transactions with ALFA and its affiliates or subsidiaries, and it is expected that Axtel's subsidiaries and affiliates will continue to have transactions between them, and it cannot be guaranteed that the terms considered in 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".

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 Our 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, 2018, total debt including accrued interest were Ps. 15,623 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,
- Limit the cash flow available to finance working capital, equity investments or other general corporate requirements
- Increase vulnerability to negative economic and industrial conditions, such as increases in interest rates, exchange rate fluctuations and market volatility
- Limit the ability to obtain additional financing to refinance debt or working capital, capital expenditures, other general corporate requirements and acquisitions, on favorable terms or otherwise,
- Limit flexibility in planning before, or reacting to, changes in the business or industry; and
- Limit the ability to incur in 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 of 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, the quality of management, the liquidity of the statement of financial position and the ability to access a wide range of sources of funds, may increase the financial cost of the Company. If this were to happen, Axtel cannot be certain that additional financing, if necessary, may be obtained from the credit and capital markets, in acceptable terms or at all. In addition, it is possible that the existing indebtedness cannot be refinanced when it reaches maturity in terms that are acceptable to the Company or not at all. If the Company cannot meet its capital needs or refinance its existing indebtedness, it could have a material adverse effect on the business, financial condition and operating results.

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 and facilities 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 syndicated loan contract signed on February 22, 2018, may restrict both the financial and operational ability of the Company.

The Syndicated facility signed on February 22, 2018 limits, among other things, Axtel's ability to:

- 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. The Company may not have the ability to maintain these ratios 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 public services providers, the Company is subject to extensive regulation. The operation of telecommunications systems in Mexico, including Axtel's, is currently subject to laws and regulations administered by IFT, which have been recently amended and may be amended from time to time in the future. Therefore, the Company must implement changes and/or adjustments to its operation to adapt them to the current regulatory framework and comply with all obligation to avoid adversely affecting their business. Adverse interpretations of the IFT may affect the business and operating results. See section "Recent reforms in the telecommunications sector of 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. Axtel's concessions are not exclusive and the Mexican government has granted and has discretion to grant additional concessions covering the same geographic regions. The Company cannot assure that additional concessions to provide services similar to those they provide will not be granted or that existing concessions will not be modified and that the value of their concessions and competition levels will not be adversely affected as a result.

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 to install, operate and exploit public telecommunication networks 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. On the other hand, the concessions of radio electric spectrum bands have a determined validity whose term expires between the years 2018 and 2046. In this regard, Axtel requested the IFT in time and form the extensions for each one of the spectrum concessions, however, this cannot assure the granting of renewals nor the terms thereof. The total payment for the rights to concessions' renewals will be determined by the IFT at the time of renewal. The non-renewal of concessions could have a materially adverse effect on the business, financial condition and operating results.

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.

The SCT granted Axtel concessions to provide telecommunications services at a national level, so there is a possibility that they will oblige the Company to provide services in certain geographical areas where it does not currently provide services.

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

We expect the Mexican telecommunications market to 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.

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.

1.4.4) Risks Relating to Mexico and other global risks

The 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 the 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 suppliers. Likewise, it could be more expensive or difficult to obtain financing to fund operations, investment 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 the debt, could be adversely affected.

The new government in Mexico, the volatility of the peso against the 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 in its financial condition, a decrease in the demand for its services and a negative impact within its customers and suppliers. The effects of the current situation are very 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 2009 when Mexico's GDP declined 4.7% (*source: INEGI*). Mexico's volatile economy could significantly affect Axtel's business and operating results.

Political events in Mexico may affect our 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 revenues.

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 their assets are located in Mexico. As a result, their 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. We cannot predict the impact political conditions will have on the Mexican economy. Furthermore, our 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 we have 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 their 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, the market value of Axtel's securities and their operating results.

As is the case regarding issuers' securities from 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. For example, prices of both Mexican debt securities and Mexican equity securities have dropped substantially because of developments in Europe.

In addition, the correlation between economic conditions in Mexico and the U.S. has sharpened in recent years because of NAFTA, now known as T-MEC and increased economic activity between the two countries. Because of the slowing economy in the United States and the uncertain impact it could have on general economic conditions in Mexico and the United States, Axtel's financial condition and results of operations could be adversely affected. In additional, due to recent developments in the international credit markets, capital availability and cost could be significantly affected and could restrict our ability to obtain financing or refinance the Company's existing indebtedness on favorable terms, if at all.

In addition, on June 23, 2016, the United Kingdom held a referendum whose outcome favored the departure of the United Kingdom from the European Union ("Brexit"). On March 29, 2017, the country formally notified the European Union of its intention to withdraw in accordance with Article 50 of the Treaty of Lisbon. A negotiation process will determine the future terms of the UK's relationship with the European Union. The potential impact of Brexit on Axtel's results of operations is unclear. Depending on the terms of the Brexit, economic conditions in the United Kingdom, the European Union and global markets may be adversely affected by reduced growth and increased volatility. Uncertainty before, during, and after the trading period could also have a negative economic impact and increased volatility in markets, especially in Europe.

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, the 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 the 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, 2018, approximately 33% 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 remained the same) and the net profit and the cash available for the payment of the 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 could adversely affect our financial condition.

While most of Axtel's revenues are denominated in pesos, most of the capital investments and 65% of the debt as of December 31, 2018 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 depreciated 16.7% in 2016, appreciated 4.7% in 2017 and 0.3% in 2018 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 3.4% in 2016, 6.8% in 2017 and 4.8% in 2018. 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 amendments to Mexico's tax laws were announced, effective as of January 1, 2014. The tax reforms resulted in various modifications to corporate tax deductions, like the elimination of certain deductions that were previously allowed in relation to payments from third parties related to foreign entities and reducing tax deductions on wages paid to employees, among others. The Income Tax charged to the companies, 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.

Axtel is subject to anti-corruption, anti- bribery, anti-money laundering and antitrust laws and regulations 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 are 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.

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. We have not taken any written preventive measures or contingency plans to combat any future outbreaks or any epidemics.

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 the 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 the market price of the same.

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 significantly, in which case investors may not be able to resell their CPOs at or above the offering price. The market price of the CPOs may fluctuate based on several factors in addition to those listed in this Statement, including:

- investors’ perceptions of Axtel’s prospects;
- differences in results and those expected by investors and financial analysts;
- the public’s reaction to Axtel’s press releases, or other public announcements;
- changes in earnings estimates or recommendations by research analysts who track the Company’s common stock or the stocks of other companies in the industry;

- changes in general economic conditions;
- changes in the exchange rate between the peso and dollar;
- changes in Axtel's current rating by the principal rating agencies;
- actions of Axtel's current shareholders, including sales of common stock by our directors and executive officers;
- the arrival or departure of key personnel;
- acquisitions, 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 our 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 a sufficient number of 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 Securities Act.

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 is possible that they will 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 of the Company's bylaws, they will automatically forfeit the Series B Shares underlying their CPOs to the Mexican government.

Non-Mexican holders of Axtel's securities have limited voting rights.

Holders of CPOs who are not Mexican nationals will have limited voting rights with respect to the underlying Series B Shares. As to most matters, voting rights with respect to the Series B Shares held in the CPO Trust on behalf of holders of CPOs who are non-Mexican investors will be voted in the same manner as the majority of the Series B Shares that are held by Mexican investors and voted at the relevant meeting.

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

Shareholders may instruct the Depositary or CPO Trustee on how to exercise their voting rights, if any, pertaining to the deposited Series B Shares underlying their securities. If requested, the Depositary or CPO Trustee will try, as far as practical, arrange to deliver the voting materials. Axtel cannot assure shareholders that they will receive the voting materials in time to ensure that they can give timely instructions as to how to vote the Series B Shares underlying their securities on their behalf. If the Depositary or 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 shareholder's 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, and there may be nothing they can do if the Series B Shares underlying their securities are not voted as they requested.

Minority shareholders may be less able to enforce their rights against Axtel, their directors or their 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 directors are not well developed, it is difficult for minority shareholders to bring an action against directors for breach of this duty as permitted in most jurisdictions in the United States. The grounds for shareholder derivative actions under Mexican law are extremely limited, which effectively bans most of these kinds of suits 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 directors, or its controlling 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.

The Company's bylaws provide that, subject to certain exceptions, (i) any person that individually or together with other persons wishes to acquire shares or beneficial ownership of shares, directly or indirectly, in one or more transactions, resulting in such person holding individually or together with such other persons shares representing certain threshold amounts from 5% to 45% or more of Axtel's outstanding capital stock, and (ii) any competitor that individually or together with other persons wishes to acquire shares or beneficial ownership of shares, directly or indirectly, in one or more transactions, resulting in such competitor holding individually or together with such other persons shares representing 3% or more of Axtel's outstanding capital stock or any multiple thereof, must obtain the prior approval of our Board of Directors and/or of the Company's shareholders, as the case may be. Persons that acquire shares in violation of the antitakeover provision will not be recognized as owners or beneficial owners of such shares under Axtel's bylaws, will not be registered in the stock registry and will be required to transfer such shares to a third party who has been approved by the Board of Directors or by the general shareholders meeting. Accordingly, these persons will not be able to vote such shares or receive any dividends, distributions or other rights in respect of 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; 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 Blvd. Díaz Ordaz Km 3.33 L-1, Col. Unidad San Pedro, San Pedro Garza García, Nuevo León, 66215, to the attention of Adrian de los Santos, or by e-mail to *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 the Lic. Rodolfo Vela de León, Notary Public number 80 of the city of Monterrey, Nuevo Leon. These articles of incorporation were registered at the Public Registry of the Property and Commerce of Monterrey, Nuevo Leon under number 1566, folio 273, volume 417, Book 3, Second Part of Mercantile Companies, Section of Trade on August 5, 1994. 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.

On 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 for 60 MHz at 10.5 GHz for point-to-multipoint access, for 112 MHz at 15 GHz for point-to-point backhaul access, for 100 MHz at 23 GHz for point-to-point last mile access and for 50 MHz at 3.4 GHz for fixed wireless access, which together allow it to service the entire Mexican territory. In June 1999, we launched commercial operations in the city of Monterrey.

With the intention to continue with our sustained growth and in order to enhance the position of leadership of Axtel in Mexico, on October 25, 2006, the Company entered into a contract with Banamex and Tel Holding, 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, S. de R.L. de C.V. for an estimate of US$516 million (including the acquisition of net passives of US$205 million). Following receipt of all required approvals from Axtel's shareholders and government regulators, we 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). Of this amount, Tel Holding subscribed and paid 246,453,963 Series B Shares and other shareholders of the Company exercising their right of first refusal, subscribed and paid 88,662 Series B Shares through the CPO Trust. The new Series B shares were subscribed and paid at a price of Ps. 1.52 each.

With the acquisition of Avantel, we became the second largest fixed-line integrated telecommunications company in Mexico, providing local and long-distance telephony, broadband Internet, data services, web hosting, information security services, virtual private networks, and a wide range of integrated telecommunications services and pay television.

Avantel was legally acquired on December 2006. Avantel Infraestructura and Avantel Concesionaria were incorporated as a 55.5%-44.5% joint-venture between Banamex (through Promotora de Sistemas) 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 brought to Axtel valuable spectrum in various frequencies, approximately 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 December 15, 2015, the Company published an memorandum in the BMV, through which it made official the intention to carry out a merger agreement between Axtel, as a merging company, with Onexa, as a merged company. 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 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 Bancomer, SA, Institución de Banca Múltiple, 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 bonds 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 bonds, 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, it was resolved to consolidate the integration of Axtel's capital stock 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.

Lastly, on December 17, 2018, Axtel completed the divestment of its fiber segment of the mass market 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 Televisa. Axtel transferred to Televisa 228 thousand residential customers and micro-businesses, more than 4 thousand kilometers of fiber optic network and other assets related to the operation of the mass market segment in these cities.

The Company’s life shall be unlimited, and its corporate domicile is based in the municipality of San Pedro Garza García, Nuevo León, and its corporate offices are located on Blvd. Díaz Ordaz Km. 3.33 L-1, Colonia Unidad San Pedro, San Pedro Garza García, N.L., México, CP 66215. 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 an information and communications technology company that offers integrated Information and Communication Technology (ICT) solutions to the enterprise segment, composed of corporate, medium and large companies, financial institutions and wholesale clients or carriers, and government segment.

Axtel's portfolio of services for the business and government segments includes advanced solutions for managed networks and information technology (IT) such as hosting, data centers, managed security, among others. Future growth is expected to proceed from these services as customers' needs continue to evolve into more sophisticated communication and data systems and applications that require the convergence of telecommunications and information technologies.

Axtel considers it has the second largest fiber network in Mexico, with an infrastructure of approximately 40,430 kilometers of fiber (including 11,000 kilometers of capacity), with which Axtel has the capacity to provide coverage to more than 90% of the Mexican market. In addition, it has more than 6,700 square meters of certified data center space according to the highest industry standards, such as Queretaro, the first data center in Latin America with an energy cogeneration system and ICREA level 5 certification.

The Company has concessions to offer local and long-distance telecommunications services throughout Mexico. Axtel provides its services through an extensive wireless and wireline hybrid local access network designed to optimize capital investments. Current options for last mile access to the Company's customers include point-to-point and point-to-multipoint wireless technologies, copper laying and direct links to our metropolitan fiber optic rings.

Axtel's vision is to be the best option for customers in their digital experience creating value through innovation, and its mission is to enable organizations to be more productive through digitalization. The strategic objective of the Company is to become a leader in select areas of differentiated IT and Telecommunications services oriented to the enterprise and government segments. Consistent with this objective, the following business strategies were defined: (1) drive growth through differentiated managed solutions for IT and Telecom services for the enterprise and government segments; (2) take advantage of the experience, existing network and partnerships with global players to expand services and provide new solutions, increasing the customer base in order to improve profitability in the operation of their assets; (3) participate in public sector opportunities with select government entities and a particular emphasis on continuing existing services; (4) compete based on quality of services and innovative product offerings and (5) guide the Company's culture towards innovation.

For the twelve-month period ended December 31, 2018, Axtel generated revenues, operating income and EBITDA for the amounts of Ps. 12,788 million, Ps. 695 million and Ps. 4,393 million, respectively. The EBITDA eliminating profits from the Tower sale, was Ps. 4,169 million. In 2018, 81% of revenues came from the enterprise segment and 19% of revenues came from the government sector.

2.2.2) Competitive Strengths

a) Leading independent provider of mission critical solutions for the Mexican enterprise market.

Following the merger between Alestra and Axtel, the Company became the only player in the Mexican ICT market with an emphasis on the business and government segments, including corporate, medium and large companies, financial institutions, government entities and wholesalers or carriers. The rapidly changing needs of customers for information, connectivity, security, mobility and services in the cloud, among others, position Axtel as a provider of essential services for the operation of its clients, with confidence and the technical support of the utmost importance for customer satisfaction. With a strong focus on business services, Axtel has positioned itself as a brand that has the experience, infrastructure and leading services to boost the ICT industry and contribute to the birth of a new generation of more innovative, efficient and competitive companies in Mexico. 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 important companies in the Mexican economy. The focus on the enterprise segment distinguishes Axtel from other telecommunications companies in Mexico, and its experience providing ICT value-added services to this segment gives it a solid and competitive advantage.

b) Sustainable competitive advantage: Second largest fiber network in Mexico.

Axtel has an extensive cutting-edge network consisting of high capacity fiber optic lines and wireless concessions. Its hybrid fixed local network structure, allows it to penetrate new markets quickly and effectively, increasing the revenue base profitably. It has the capacity to provide coverage to more than 90% of the Mexican market through its extensive network, consisting of approximately 40,430 km of optical fiber, including approximately 22,170 km of long distance network, approximately 16,850 km of metropolitan rings and 1,410 km of FTTx network. In addition, Axtel provides its next-generation services using its world-class Data Centers built according to international standards. Currently, Axtel has six Data Centers with more than 6,700 square meters of capacity, with ICREA (International Computer Room Experts Association) certifications from Level 3 to Level 5.

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

A significant proportion of the business (approximately 95% of revenues in 2018) consists of contracts with monthly recurring revenue. In addition, given the nature of the services and the high quality of our enterprise customers, Axtel has a loyal relationship with customers with stable recurring revenues. Losses due to uncollectible accounts have historically been very low, with a marginal rate of uncollectible accounts.

d) Disciplined financial strategy committed to reinforcing Axtel's balance sheet position.

Approximately 70% of Axtel's capital expenditures in 2018 were directly related to specific customer sales, and represent investments in access connections, equipment and network directly related to the customer's specific requirements. Thus, these investments generally carry a lower risk, with relatively more predictable returns. This gives the company significant visibility with respect to the income flow derived from this proportion of capital investments and reaching an adequate level of indebtedness.

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

The members of the management team have an average of 22 years of experience in the industry, providing knowledge and continuity in the development and implementation of the business strategy. During their tenure, the management team has transformed the company from a long-distance company into a sophisticated provider of IT and telecommunications solutions with a broad portfolio of value-added services. Additionally, ALFA, which indirectly owns 52.78% of Axtel, is a leading conglomerate in Latin America with an established culture of operational excellence, human resource development, prudent corporate governance and reliability as a partner. These values form the core of the business.

2.2.3) Business Strategy

The strategic objective of the Company is to strengthen its position as a leader in select areas of integrated services of information technology and Telecommunications, with differentiated services oriented to enterprise customers with more sophisticated information and communication technology requirements, such as multinational entities, corporations, financial institutions and government entities. The key elements of the business strategy are the following:

a) Drive growth through differentiated managed solutions of IT and Telecom services for the enterprise and government segments.

Axtel holds a strong position that enables it to capitalize on the growing demand for IT and managed services, as the needs of its business and government clients continue to evolve towards more sophisticated converged solutions, which require superior technical capabilities, cutting-edge technology and reliability through Axtel's end-to-end managed network. Resulting the merger between Alestra and Axtel, the Company consolidated a robust service portfolio, which combines the strengths of Telecommunications and the IT capabilities of both companies to offer integrated value-added information technology solutions, generating important market differentiations. Axtel focuses its efforts on strengthening its competences in a determined number of services, where managed converged networks, cloud services, cybersecurity, mobility, system integration solutions and managed applications stand out, among others. These services are offered in an integrated way, along with traditional telecommunication services such as dedicated links, VPNs and Ethernet, among others. For small and medium companies, a series of standardized offers are commercialized, while the design of solutions for large corporate accounts is adapted to the needs of each customer.

Axtel seeks to increase IT revenues within its portfolio of services, focusing on supporting enterprises with information technology solutions that make a notable difference for their businesses, whether in terms of productivity, efficiency, availability and/or cybersecurity, as well as supporting their strategies in order to reduce costs and/or generate new revenues. In line with this strategy, in November 2014, Alestra acquired S&C Constructores de Sistemas, a Mexican company with a broad portfolio of information technology services. In May 2015, Alestra acquired 51% of Estratel, and in July 2016, Axtel acquired the remaining 49%, making it a wholly-owned subsidiary of the Company. Estratel is a Mexican firm specialized in the integration of IT solutions for the enterprise and government sectors, with close collaboration processes with Axtel to enable both companies to take advantage of and maximize the benefits each company share with each other, such as technical capabilities and expertise in certain brands and technologies. In August 2013, Alestra also acquired GTel, a company that provides integrated services for voice, data and video solutions to medium and large companies, contributing technological capabilities, services, procedures and personnel. The Company will continue to seek and evaluate opportunities through acquisitions or partnerships to strengthen its portfolio of IT services and divestment opportunities for non-strategic assets that allow Axtel to continue to strategically invest in the enterprise and government segments or reduce its debt. To this end, Axtel has engaged financial advisors to evaluate and, if necessary, execute such divestments, such as the telecommunication tower sale announced in July 2017 and early 2018, and the divestment of a large portion of the mass market segment in December 2018.

b) Take advantage of the experience, network infrastructure and partnerships with global players to expand services and provide new solutions, increasing the customer base to improve the profitability of the assets' operation.

The fiber optic network allows the Company to have infrastructure through which it can offer a greater portfolio of IT and telecommunications services, thus satisfying the growing market demand. To increase the efficiency of network deployment, Axtel has developed personalized service offers to attract new customers and keep existing ones. Likewise, the Company evaluates opportunities to expand the network to strengthen its capacity to attract large customers with multiregional needs that generate higher revenues and margins, as well as increase the return on investment in its network infrastructure. To achieve the selective expansion of services and network coverage, Axtel can participate in strategic transactions with other value-added service providers. Such was the case in 2018 with alliances between Axtel and global players like Amazon and Microsoft, which allow the Company to offer hybrid cloud services, that is, public and private cloud services in Mexican territory, which in turn can be connected to the partner's cloud in the United States.

Axtel's commercial offers and investments are focused on offering a wide range of services for the enterprise segment, incorporating select IT solutions, such as cloud services, cybersecurity and system integration, among others, that take advantage of the existing network. These services are integrated with conventional or infrastructure-based telecommunications services by adapting the solutions to the customer's needs.

c) Participate in public sector opportunities with selected government entities with an emphasis to continue providing existing services.

Within the government segment, Axtel focuses its efforts on the renewal of existing contracts to reduce acquisition costs, offering new services to existing clients and managing new projects with a select group of federal, state and local entities. Axtel has proven that limiting the number of government entities it serves enables it to optimize the financial resources dedicated to this segment and maximize sales efforts for a group of clients that have positive experiences in terms of bidding and sales force recruitment, after-sales requirements and collection efforts. Axtel believes that this strategy is beneficial in terms of creating stable and recurring revenues, greater profitability and cash flow generation.

d) Compete based on service quality and innovative offers

Axtel serves a sophisticated client base with demanding customer service requirements, which values quality and reliability, and incurs in significant costs and risks when switching IT and Telecommunications providers. With this, Axtel considers that its customer base provides a stable income source through long-term commercial relationships and contracts. The end-to-end management of their network, as well as certain leased circuits, is essential to guarantee the quality of the service. Axtel will continue to make investments to expand its network, primarily to extend last-mile access facilities to additional customer locations. This approach will strengthen network reliability, while reducing leased infrastructure costs.

Axtel has been characterized as the technological partner of the Mexican enterprise sector, being a pioneer in cloud services in Mexico, with the most innovative Data Centers in Latin America, with an Innovation Center to promote disruptive innovation and continuous improvement with NAVE as the first business accelerator, and above all, with a broad portfolio of services, which grows year after year with the incorporation of new products aligned to global technological trends. These innovations are offered to the different market segments and industries, encouraging the adoption of these new services, seeking to close Mexico's digital gap in such a way that the country's productive sector uses technology as a key element in the development of its businesses.

e) Aim the Company's culture towards innovation.

In the ICT industry, where the speed of change is constant, Axtel believes that innovation is a way to maintain its leadership and differentiate itself from the market, by capitalizing on emerging trends. Recognizing this, since 2007, Axtel has implemented and developed an innovation program that focuses on generating value for its customers, shareholders, and the organization itself, implementing a culture that challenges the status quo in the Company. Seeking benefits for its operation and solutions for its clients, employees, through the Innsight platform, upload ideas, where they can comment, complement and vote between them. Derived from Innsight, in 2018 initiatives were developed and implemented, resulting in an annual benefit of Ps. 215 million in operating expenses and Capex. In addition, Axtel has the business accelerator NAVE, through which in 2018 it analyzed and evaluated startup companies in Mexico and Chile, among other countries, selecting seven entrepreneurial projects in Security technologies, Artificial Intelligence and Machine Learning, Big Data, Cloud Applications and Mobility. Through this initiative, Axtel seeks to formalize commercial alliances and co-creation schemes to offer new products. Another key element in the innovation program is the Innovation Hub in Monterrey, a flexible and collaborative space that was developed to generate value initiatives for Axtel and its clients, using methodologies such as the implementation of design thinking, lean startup and foresight. The Innovation Hub helps the Company with the creative process and the implementation of new projects, encouraging collaboration with external parties, including business partners and universities.

2.3) Business Activity

Axtel is a Mexican company that offers integrated Information and Communication Technology (ICT) solutions to the enterprise segment, composed of corporate, medium and large companies, financial institutions and wholesale clients or carriers, and the government segment.

To analyze revenues, we track the following three categories:

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

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

- *Voice:* Local and international long-distance calls to fixed and mobile telephones, 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 and collaboration, among others.

b. *Information Technologies ("IT"):* The Company provides IT services to the enterprise segment, such as system integration, hosting, managed applications, security and cloud services, among others.

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

The products and services offered by the Company to the enterprise and government segments are, among others:

TELECOM	**IT**
VOICE	**HOSTING**
800 Services	*Co-location*
Local Service	*Large Scale*
Cellular	
PBX	**SYSTEM INTEGRATION**
Smart Lines	*System Integration*
VoIP	*IT Equipment Sale*
DATA AND INTERNET	**CLOUD SERVICES**
Direct Access	*Infrastructure Services*
Domestic and International Private Lines	*Software Services*
	Hybrid Cloud
Dedicated Internet	
Broadband	**SECURITY**
	IT Managed Security
MANAGED NETWORKS	*Network Managed security*
VPNs	
Ethernet	**MANAGED APPLICATIONS**
Managed Services	*Service Desk*
- *MS Routers*	*Managed Applications*
- *Managed LAN*	
- *Equipment Sales*	**SOFTWARE FACTORY**
- *Structured Cabling*	
Collaboration	**MEANS OF PAYMENT PROCESSING**
- *Unified Communications*	
- *Integrated Videoconferencing*	
- *Global Conference*	**MOBILITY**
- *Meeting room*	
- *Contact Center*	
- *Equipment Sales*	

Axtel is a company focused on offering integrated solutions of Information Technology ("IT") and Telecommunications managed services ("Telecom") to the enterprise and government segments, with a portfolio of services aligned to global technology trends and vast experience to provide the highest standards of services required by the various sectors of the Mexican economy. With this, Axtel supports its clients to achieve more efficient operations, increase their productivity and use technology as a key factor in the development of their businesses. Currently, the company holds ongoing contracts with most of the national and international financial groups in the country, which emphasizes the important position of Axtel within the financial sector, among others.

Axtel has a comprehensive Data Center strategy, designed with the highest standards, which represents one of the most complete alternatives in the market, positioning itself among the most advanced and reliable service providers in Mexico and Latin America. The Company offers solutions that make use of six world-class Data Centers, with a capacity of more than 6,700 square meters, which provide Mexican companies with some of the best technologies and market access. The data centers are backed by the best practices in security, energy, communication and refrigeration systems, which provide customers with the certainty that their operations will not be interrupted. During 2018, to increase the presence of Axtel in key cities and provide services to the largest number of companies in the country, coverage of Ethernet data services and local services were enabled in 6 and 9 new cities, respectively. In addition to the above, to promote the use of Communications by Mexican companies, 11 industrial parks and 45 Business Centers were equipped with optical fiber.

Likewise, Axtel continued to strengthen its infrastructure and services portfolio by incorporating new technologies. This contributed positively to the revenues of services of Managed Networks, Cloud Services and Security, reporting double-digit growth, thus confirming a strong positioning of the Company in the enterprise and government segments within services that help organizations with their Digital Transformation. This is reflected in acknowledgments received from its technology partners for good commercial performance, such as Avaya Midmarket of the Year and Symantec 2018 One Million Dollar Deal.

Moreover, in the Government segment, Axtel continued to participate and achieve assignments of large projects, especially in Security technologies, Data Centers and Internet. In 2018, the 2017 u-Gob Award was received in the E-Economy Project category, a technological platform developed by the Axtel-Ultrasist consortium, making Mexico the first country in the continent to put into operation a platform of this type. According to the Organization for Economic Cooperation and Development (OECD), Mexico is among the top 8 Foreign Trade Single Windows in the world, mostly due to the technology implemented by our Company.

In addition, to continue developing technical capabilities and strengthen relationships with technology partners, in 2018 new certifications were obtained, such as Symantec Platinum Partner, Microsoft Gold Cloud Productivity and AWS Standard Partner.

In terms of the Products and Services portfolio, in partnership with Microsoft in 2018 the first Azure Stack solution was launched in Mexico, offering hybrid, private and public cloud services through the integration of Axtel's cloud services and Microsoft Azure cloud. Consecutively, new connectivity solutions were introduced dedicated to the most important clouds worldwide, such as Direct Connect with AWS and Express Route with Microsoft Azure. It should be noted that Axtel is the first company in Latin America to have implemented the Azure Stack solution with dedicated connectivity from Express Route to Azure in the United States.

To meet new business’ communication needs, services like Virtual Switches based on cloud infrastructure were incorporated; wireless access solutions with information analysis and Big Data applications; concept and market tests for the new technological trends of Software Defined Networks, and a constant continuous improvement of existing products to maintain the full portfolio of services at the technological forefront. Axtel also continued supporting clients to strengthen the security of their information through new solutions based on Cisco, Fortinet and Palo Alto technologies.

Additionally, Axtel has a mobility services strategy based on its active participation in the ALTÁN Redes project, a consortium that obtained the exclusive right to create a wholesale network in Mexico, known as Red Compartida. Axtel, as a provider or ALTÁN, provides infrastructure and capacity including metropolitan ring connectivity, fiber capacity, placement services and data centers. In addition to its role as a provider, Axtel seeks to become a client of the Red Compartida, which will allow it to strengthen its portfolio of solutions for business customers with the mobility service, strengthening its competitive position by offering clients access to a full range of its applications in a highly reliable and secure mobile environment.

The following are the key solutions available to our customers in these segments:

Telecom:

Voice/Telephony:

These solutions include services such as local calls, international long distance, Smart lines (which allows customers to assign authorization and call filtering codes), 800 services with national or international coverage and prepaid and postpaid phone cards. 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 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 seek 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 collaborations solutions are:
    - videoconference and telepresence services that facilitate collaboration between geographically distant rooms, providing flexibility and connectivity coverage;
    - unified communication solutions that allow the use of instant messaging, voice, mobility and applications for call centers, which are accessed through the cloud, so 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; and
    - cloud solutions that allow collaboration through new workspaces that help people work from anywhere and on any device.

IT:

System Integration

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

Cloud Solutions and Data Centers

Axtel offers state of the art technology through cloud access, which includes infrastructure, applications, technical support and solutions, which offer unlimited capacity, universal accessibility, flexibility and savings by circumventing the need to invest in equipment. This is backed 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 but are not limited to:

- Services that offer virtual or physical servers through the cloud.
- Services that offer the customer the option to acquire on-demand computing resources, flexible server configurations, RAM and storage, which can be provisioned by the client via the web.
- Access to ERP (Enterprise Resource Planning) "All in One" version of SAP and S4HANA, across a cloud service scheme that allows the customer to obtain savings by not having to purchase the 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.
- Learning management service based on the Learning Management System platform in the cloud, which enables companies and educational institutions to improve, optimize and automate their processes, ensuring alignment with their business strategies.
- The swift generation of server backups that allows the information to be secured through a platform available under an "as a service" scheme.
- Storage as a service for hosting and the execution of applications under an "on demand" scheme.
- Cloud BackUp for safe, periodic, and automated backups.
- Virtual desktops to remotely access your desktop and applications from any device.
- Public Cloud Services (Iaas, PaaS, SaaS) based on two of the largest public clouds on a global level in a managed service format.
- Hybrid cloud solutions combining functions from the cloud in Axtel's Data Centers with the public clouds outside of Mexico, including the building of dedicated links to guarantee the security and efficiency of the solutions.
- The Help Desk Service, which is a single point of contact for users that manages incidents, problems, or issues that are related to IT services.

Hosting

Dedicated, co-located and virtual hosting services allow the customer 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, administration and management.

Security Solutions

The security portfolio provides solutions that allow for the protection of computer equipment, networks and systems from threats and computer 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, Intruder Detection and Intruder Prevention Services, Web Filtering and Managed Firewall Services, which are designed for businesses requiring controlled Web access, comprehensive and multi-layer protection and all in one security that provides, controls, detects, mitigates and monitors secure perimeter access. The service is offered through the Security Operation Center (SOC), where the security of services is monitored 24/7, as well as the threats worldwide so that preventive actions can be taken to safeguard the information of the clients.

Managed Applications

Solutions that provide specialized management of IT services accompanied by a complete operational model of monitoring and management based on the best practices of the industry. With this solution, customers delegate the operation of their critical applications in such a way as to provide an outsourcing service for operation, monitoring, incident management, problems and changes of business applications such as ERP, CRM, databases, among others.

2.4) Advertising and Sales

For enterprise customers and government entities, Axtel offers solutions through the "Alestra" brand that help customers optimize their businesses, increase their productivity, and reduce the technological investment in ICT services, thus enabling them to concentrate on their core business. Axtel implemented a consultative sales method where it provides added value and bring access to cutting-edge technological trends to its customers. The services offered are grouped into two lines of business: telecommunications and IT.

To promote the products in the enterprise and government segments, Axtel uses a variety of communication and commercial tools, among which are the launching events for new products, publications in specialized magazines, experience centers or "Centro Sperto", participation in forums, online communication and direct promotion with the support of presentation tools.

2.4.1) Sales Channels and Strategies

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

Enterprise and Government Segment:

Axtel's Enterprise and Government Segment model is based on sales teams that include a Sales Consultant, a Customer Service Representative, a Solution Design Engineer and a Service Delivery Representative. Accounts are grouped into categories depending on the revenues and 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 Integrator Indirect Channel 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	
Elite Experience	TOP Customers from the Financial, Corporate and Wholesale Segments	

Promotion efforts through Centro Sperto and focused events, such as the annual Business Technology Summit, are key to the market's understanding of Axtel's differentiators. Axtel has three experience centers called Centro Sperto, located in Monterrey, Mexico City and Queretaro, with international recognition by the Association of Briefing Program Managers. These centers are world class spaces designed to foster the experience of the services that are on the cutting-edge of technological innovation. The aim is to offer Axtel customers a forum to converge their communication challenges with Axtel's high-tech experience and services with the goal of promoting the design of precise information technology solutions required by the companies. During 2018, more than 475 assisted sales opportunities were recorded. Likewise, the tenth anniversary of Centro Sperto was celebrated in the year, which throughout the years, has received more than 2,500 companies, 6,000 visitors and 66 student tours. Centro Sperto has been recognized since its first year with World Class Marketing Awards by the ABPM (Association of Briefing Program Managers), as well as Awards for Innovation and Excellence in Marketing.

In addition, since 2010, Alestra Now has been recognized as one of the most important technological forums across the nation. It is carried out in five of the most important cities of Mexico and is attended by various decision makers, leaders, businessmen and entrepreneurs in the field of IT. During 2017, Querétaro, Guadalajara, Mexico City, Monterrey and Tijuana were part of this experience, where more than 5,400 participants were received, who had the opportunity to learn about the new trends in Cloud, Collaboration, Security and Managed Networks. With more than 50 solutions from 13 technology partners, to which an area of Innovation was included, where models of Augmented Reality, Artificial Intelligence, Internet of Things and Big Data were shown, and the visiting companies could observe cases of tangible uses of the most revolutionary technologies in Digital Transformation.

2.4.2) Customer Service

A key element of Axtel's competitive strategy is to consistently provide reliable, responsive customer service. In order to achieve this goal, Axtel has established a 24/7 customer service center staffed by highly trained personnel. The Company has implemented a comprehensive training, testing and certification program for all staff that directly interacts with customers.

Axtel provides post-sales service on a nationwide basis through the following teams:

- Customer Service, which provides post-sales customer support ranging from general information to additions and changes resulting from billing inquires and technical support.
- Operator Service 24 hours a day, which includes wake-up calls, time of day, emergency calls and assistance for placing domestic and international long-distance calls.
- Advanced Services Center, which is for customers with advanced services that require high availability. This is a monitoring center that proactively seeks to maintain optimal service for these customers.
- Repair Calls, consisting of service executives that address and manage customers' reports and provide on-line technical support and analysis.
- Local Testing, which analyzes and tests all reports that are not resolved on-line by repair calls. This team is accountable for routing these reports to our repair dispatch.

Both the Repair Calls and Local Testing areas work together with the network maintenance center in order to monitor and repair network failures.

The Holistic Operation Center is the center that brings together best practices, processes, tools and experts from our 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).

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, and if required, his printed invoice is delivered to a specified address within twelve days after the end of the consumption period. Also, in case the customer requests a payment reminder is sent 7 days before the payment due date if payment has not yet been submitted.

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 our 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 Care Agent who is responsible for providing a high quality personalized service. The Customer Care Agent is responsible for reviewing billing requirements and ensuring that the customer receives the correct invoice in a timely manner, and to meet any other particular need the customer requires (for example, elaboration of customized service and billing reports).

For high-end enterprise customers, such as multinational, financial and governmental entities as well as large corporations, our Customer Care Agents 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 discussed 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, 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.

Once a customer goes past the grace period for payment, Axtel executes corrective collection procedures, including partial or total suspension of services and visits to customers. 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, to exhaust all possible resources to negotiate payment. With the goal of keeping the customer whenever possible, throughout the collection process Axtel’s collections team provides customers with guidance and proposes alternative solutions and payment programs, which may include reconnecting a customers’ service under a prepayment scheme or agreeing with the customer to a payment schedule for the outstanding balance or both.

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

2.5.1) Company’s Concessions

Axtel, Avantel and Alestra Comunicacion (hereinafter collectively known as Axtel), holds certain concessions titles granted by the Federal Government which have a duration of 20 and 30 years and which could be renewed for the same period originally granted. Such concession titles 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 signs, signals, writings, images, voice, sounds or 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. message delivery service (SMS);
g. point to point and point to multipoint links
h. restricted television, continuous music services or digital audio services;

Axtel has a Single Concession, which has the following advantages: it confers the right to converge all types of public telecommunications services or broadcasting; it is not necessary to have Public Telecommunications Network Concession (RPT); the consolidation of all TOR titles, which simplifies and ratifies the administrative procedures for compliance with the obligations; prior to commencing operations of any public telecommunication service that is technically feasible, IFT shall be required to register with the Public Concessions Registry; Valid for 30 years and may be extended for equal terms; and economic savings, (e.g. payments of rights, payments for bonds, etc.)

On May 1, 2017, the merger between Axtel and Alestra was carried out, therefore, the concessions of the public telecommunications network that Alestra had were consolidated in the Axtel Concession and the frequency band concessions that Alestra had were given to Axtel.

In 2018, Axtel, in its capacity as a Full Virtual Mobile Operator, promoted before the IFT, two 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 to 2019.

The following is a summary of the concessions:

TYPE OF CONCESSION	COVERAGE	TERM	GRANT	EXPIRATION
Single Concession for Commercial Use	National	30 years	Jan-29-2016	Jan-29-2046
Provision of capacity for the establishment of point-to-multipoint microwave links.	Region 1-9	20 years	Apr-1-1998 Sep-28-1998	Apr-1-2018 Sep-28-2018
Fixed and mobile wireless access through the RPT	Region 1-9	20 years	Oct-7-1998	Oct-7-2018
Provision of capacity for the establishment of point-to-point microwave links	National	20 years	Jun-4-1998 Aug-1-2000	Jun-4-2018 Aug-1-2020
Concession to install, operate and operate a public telecommunications network for the provision of basic national and international long distance telephone service	National	30 years	Sep-15-1995 Nov-8-2000	Sep-15-2025 Nov-8-2030
Concession to install and operate a public telecommunications network for the provision of local basic telephone service	National	30 years	Apr-12-1999	Apr-12-2029
Concession to install and operate a public telecommunications network for the provision of point-to-multipoint service	National	20 years	Apr-1-1998	Apr-1-2018
Provision of capacity for the establishment of point-to-point microwave links	Reg. 1, 3, 4, 6 y 9	20 years	Jan-25-2000	Jan-25-2020

It should be noted that the concessions due in 2018, are in the process of authorization and extension by the IFT. We hope that these will be delivered to Axtel in 2019.

2.5.2) Main Trademarks

Axtel owns several registered trademarks that are used to market the products and services offered by the Company. In 2019, Axtel has 16 expiring brands that, according to needs, necessary procedures will be carried out to renew them. Among others, Axtel has the following most important registered trademarks:

TRADEMARK	REGISTRY NUMBER	EXPIRATION	OWNER
AXTEL (red design)	1,662,027 1,668,825 1,661,624	Apr 07, 2026	Axtel, S.A.B. de C.V.
AXTEL (blue design)	1,662,025 1,668,824 1,662,026	Apr 07, 2026	Axtel, S.A.B. de C.V.
Alestra	511,656	Nov 01, 2025	Axtel, S.A.B. de C.V.
Axtel	584,421	Jul 13, 2018	Axtel, S.A.B. de C.V.
Soluciones Axtel	625,940	Jul 02, 2019	Axtel, S.A.B. de C.V.
AXTEL	871,511	Jul 02, 2019	Axtel, S.A.B. de C.V.
AXTEL.NET	638,715	Nov 30, 2019	Axtel, S.A.B. de C.V.
Axtel TV	1,361,372	Jan 2, 2023	Axtel, S.A.B. de C.V.
Axtel Conmigo	1,130,301	Oct 29, 2019	Axtel, S.A.B. de C.V.
Acceso Universal	1,188,054	Oct 29, 2019	Axtel, S.A.B. de C.V.
AXTEL X-TREMO	1,195,317	Oct 15, 2020	Axtel, S.A.B. de C.V.
Axtel Acceso Universal Axtel X-tremo	1,195,315	Oct 15, 2020	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:

a. Agreement between the parties;
b. Determined by IFT resulting from a Disagreement process; or,
c. Through the application of Non-Discriminatory Treatment, foreseen in the *Ley Federal de Telecomunicaciones y Radiodifusión* (LFTR).

For 2019, the IFT has established the following interconnection rates:

a. For the Preponderant Economic Agent (AEP):
    a. For termination in the AEP’s mobile network for the local service for users under the “caller pays” scheme: $0.028313 MXP
    b. For termination in fixed network: $0.003151 MXP.
    c. For termination of short messages (SMS) in mobile users $0.009241 MXP per message.

    d. For mobile transit service: $0.001551 MXP.
    e. For fixed origination services: $0.003535 MXP.
    f. For fixed transit services: $0.004465 MXP.

b. For non-preponderant operators:
    a. For traffic termination:
        i. In fixed networks: $0.003360 MXP.
        ii. In mobile networks: $0.112623 MXP
    b. For Origination: $0.003092 MXP.
    c. For Transit: $0.003809 MXP.
    d. For termination of short messages (SMS):
        i. In fixed networks: $0.01237 MXP.
        ii. In mobile networks: $0.015379 MXP.

Most interconnection agreements that have been signed are effective, and are updated based on the resolutions passed by the IFT, or across direct negotiations between operators, either because its term has not finalized yet or by the application of the conditions of continuous application.

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 dealers the following:

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

As of the end of 2018, the Company had signed the following agreements with Telmex and Telcel respectively:

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

The prices and conditions for these services are the ones established by Telmex and Telcel, respectively, but may be modified by IFT 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:

- ISO 9001:2015
- ISO 20000-1:2011
- ISO 14001:2015
- ISO/IEC 27001:2013
- ISO 22301:2012

- ICREA – Nivel 3,4 y 5
- Uptime Institute – Tier III Design Documents -
- CEEDA – Nivel Plata, Bronce y Oro
- CMMI – SVC Nivel 2 y Capability Nivel 3
- PCI Data Security Standard
- SSAE-18
- TIA 942

- Aspect – Channel Sales Agreement
- AudioCodes Platinum VAR
- Avaya Platinum Partner
- Avaya DevConnect
- AWS Standard Consulting Partner
- Blue Coat Partner Premier Soluciones de Seguridad
- Checkpoint Pure Advantage Partner especializado en soluciones CCSP
- 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 and Managed Services Master
- CISCO, Cloud Services Reseller
- CISCO, Telepresence Video Master Authorized Technology Provider (ATP)
- CISCO, Identity Services Engine Authorized Technology Provider (ATP)
- EMC Gold Partner
- Fortinet Platinum Partner en Mexico con Servicios Administrados
- HPE Silver Partner
- Huawei Commercial Agreement VDI Solution Data Center Project Agreement
- Microsoft Hosting Partner
- Microsoft Gold Cloud Productivity
- Oracle Gold Partner
- SAP MCaaS Partner
- SUSE Cloud Services Provider Agreement
- Symantec Platinum Partner
- Trustwave Partner Autorizado

In 2018, 111 Axtel employees obtained 150 certifications in different tools and knowledge from institutions such as Alcatel, Amazon, Avaya, Axelos, Certified TIA, Check Point, Cisco, CMMI Institute, Commscope, CompTIA, CPANEL, Data Center Dynamics, EC-Council , Exin, Fortinet, Huawei, ISACA, ISO, LogRhythm, Microsoft, Palo Alto, SCRUM, Six Sigma, TIA, Veritas and VmWare.

2.5.5) Research and Development

To carry out research and development activities, Axtel has an Innovation program with different tools that allow the generation of new strategies, products and services.

- Innovation Hub: It is an open and collaborative space created to practice innovation with collaborators, clients, partners and entrepreneurs. There are also three satellite spaces within Axtel's corporate offices, in the EGADE Business School and in the Monterrey Digital Hub.
- Foresight: It is the methodology with which we analyze how trends will evolve and impact the industry in the next 5-10 years. This area constantly researches trends and identifies those that will impact Axtel and its clients to establish different scenarios and future opportunities.
- Axtel Labs: It is Axtel's laboratory for research and testing of new technologies located in our Innovation Hub. Based on foresight results, Axtel Labs has technologists specialized in testing new technologies aligned to the priority trends for Axtel, as well as co-creating solutions for Axtel’s customers.
- NAVE: It is Axtel's business accelerator, which seeks and selects technology entrepreneurs aligned with foresight trends. It has a process that develops quickly and structured to early stage technology companies with the potential to create new lines of business, new products and new business models for Axtel. In 2017, the second NAVE generation was successfully completed, receiving 150 applications of which 10 entrepreneurial projects were pre-selected in Big Data, Internet of Things, Social Networks, Security, Mobility and Artificial Intelligence technologies. This second edition was concluded with two companies selected to collaborate in a commercial alliance with Axtel and one to initiate pilots for the internal digitization of the company.

- Innsight: Continuous improvement platform, where collaborators post ideas, comment, enrich and vote on them. In 2018, initiatives were developed that resulted in an annualized benefit of 263 million pesos in operating expenses and capex.
- Innovation as a Service: Our practices, methodologies and experience from over 12 years of our Innovation program is brought to market through a range of consulting, workshops, tools and services to enable our customers in their own digital transformation.

2.6) Main Customers

Axtel has more than 18,000 enterprise and government customers in Mexico; including national and multinational corporations, wholesale customers or carriers, 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 2018, 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. No other customer represented more than 5% of Axtel's total sales.

2.7) Applicable Legislation and Tax Situation

2.7.1) 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.

At the end of September 2018, the governments of Mexico, Canada and the United States reached an agreement to renovate the Free Trade Agreement. 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 our existing portfolio of solutions with the mobility service, several tests have been initiated to market the services using the Altán and Telcel network. Furthermore, as a complete virtual mobile operator (CVMO), various resolutions and agreements were obtained that allows Axtel to interconnect with all mobile and fixed operators, in addition to the fact that they have the right to charge mobile interconnection fees.

On the other hand, as of 2018, the Federal Institute of Telecommunications established an incremental cost methodology to determine the rates that the preponderant agent must charge for the services of links that it provides to other concessionaires, to encourage greater competition.

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 (PTN) was eliminated, now the "Single Concession" is foreseen as a general framework to provide any service public telecommunications and broadcasting, which has advantages such as:

- 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.
- Allowing the consolidation of all concession titles under the PTN, thus simplifying administrative processes to comply with obligations.
- 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.
- 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 dealers; 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, we are 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. We are 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 (other than value-added 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.

2.7.2) 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 constitutional and legal reforms published in (i) 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 in (ii) 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, and per the request of the CNBV, 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, who will now have the same corporate rights as the Mexican holders, 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.

2.7.3) 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 2018, 2017 and 2016 to a legal tax rate of 30%.

2.8) Human Resources

During the year ended December 31, 2018, Axtel had 7 thousand 644 employees, of which 483 are temporary employees. For the years ended December 31, 2017 and 2016, Axtel had 7 thousand 044 employees and 7 thousand 584 employees, respectively.

As of December 31, 2018, the Company's employees, except for directors, managers and certain executives, are members of the *Sindicato Nacional de Trabajadores de la Industria de Telecomunicaciones de la República Mexicana* (the Workers' National Union of the Telecommunications Industry in Mexico). The total number of unionized employees represented 11% of the total number of employees as of December 31, 2018. There are no employees or employees of the Company assigned to other unions. The Company considers that it maintains a good relationship both with its employees and with the union.

2.9) Environmental Performance and Social Responsibility

For several years, Axtel has incorporated sustainability into its business strategy as a benchmark for action and continuous improvement, through which it seeks a positive impact on the Company's social, environmental and financial fields.

Axtel's operations are subject to local, state and federal environmental protection regulations enforced in Mexico. We comply 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, as part of the Company's Sustainable commitment by acting beyond compliance with legal requirements and other environmental requirements that Axtel voluntarily adopts.

For the eleventh consecutive year, Axtel received the *Empresa Socialmente Responsable* by the Mexican Center for Philanthropy (CEMEFI), and continues to adhere to the UN Global Compact, the largest Social Responsibility initiative in the world, as well as being part of the Sustainable IPC of the BMV since 2013. Additionally, it entered the Dow Jones Sustainability Index in 2017.

Likewise, in 2018 it continued adhering to the "Greenhouse Effect Gases Mexico" and "Clean Transportation" Program. Through the internal initiatives undertaken, 22 percent of Axtel's energy consumption comes from clean or renewable sources.

This focus is defined in the Company's global sustainability strategy:
Contribute to a more sustainable future with their 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.

This strategy is the framework for all the efforts to continuously improve the performance of the Company and is reflected in the Sustainability Model, which is based on five fundamental themes:

- Operative Efficiency
- Innovation and Digital Culture
- Social Investment and Involvement
- Labor Welfare
- Environmental Conscience

2.9.1) Operation Efficiency

In Axtel, they manage their resources honestly, efficiently and in a balanced way, including economic and financial resources, to be able to attract new business opportunities and boost the growth of the markets we serve.

Three years after the merger, the Company has managed to improve business systems, successfully meet the customers' needs and generate important changes that, together, have brought benefits for the Company and for its stakeholders.

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

The current Code of Ethics is governed by 16 principles that include the behavior that is expected by Axtel from its employees, suppliers and allies, seeking a productive work environment respecting human rights, diversity and harmony, avoiding situations of conflict of interests, bribery, corruption, discrimination and harassment; as well as defining the guidelines of conduct in the Company's relationships with investors, clients, creditors, suppliers, competitors, government and authorities.

The members of the Board of Directors are aligned with the provisions of the applicable legal provisions, including the duty of diligence and the duty of loyalty.

The Alfa Transparency Mailbox is a reporting tool that is permanently available to employees, customers, suppliers, shareholders, investors, community and other stakeholders to ensure the correct application of the Code of Ethics. It is possible to report on issues related to accounting, finance, internal control, conflict of interest and corruption or bribery, with which Axtel seeks to promote an environment of transparency, integrity and ethics within and outside the company. Complaints can be made anonymously and confidentially via email and a toll-free telephone line and are reviewed by the Alfa Audit Department.

2.9.2) Innovation and Digital Culture

Axtel's business requires it to maintain high standards of quality and efficiency in Information and Communication Technologies, as well as to guarantee the security of the information of Axtel and its clients. 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.

As part of Axtel's portfolio of innovation services, in 2018 the innovation initiatives that were carried out within the company were defined and prioritized through the Foresight methodology, which allows it to identify global technological trends, visualize future scenarios and generate innovation opportunities for the benefit of its stakeholders.

During 2018, the Innovation area contributed to implement ALFA's initiative to create a companywide Foresight strategy, with the objective of complementing the strategic planning of the Group's companies through the visualization of future scenarios.

The Foresight Observatory was also launched as an internal communication tool with articles of interest on the technological megatrends that impact the industry and contribute to the internal development of employees

During 2018, 35 percent of the organization participated by uploading ideas, collaborating through comments, evaluating and implementing ideas of value that generated more than 130 million pesos in savings for the Company. It also supported the creation of internal teams to develop ideas generated by Axtel's collaborators, among which are the Single Window project (VUCEM) that was the winner of an ALFA Innovation Award, the creation of the Axtel Academy and the implementation of the e-fast project to make service deliveries more agile.

Additionally, this year Axtel received customer visits, delivered workshops and launched external events such as Innovation Week with Tecnológico de Monterrey, HUB Nights with topics such as digital transformation and blockchain, Amazon Alexa and IBM Training and Elastic Search Conference.

More than 700 people participated in these events. Innovation spaces were also inaugurated in other buildings such as: the innovation room in Campus Axtel, the collaboration space in the Bunker within the CIT and the collaborative space in the MTY Digital HUB.

Axtel promotes open innovation with external teams, convinced that it allows them to reach new frontiers in strategic evolution.

The NAVE accelerator is a platform that promotes scaleups (companies with more than two years of operation, legally constituted, that could have received prior investment and whose business model is defined and is scalable) related to mobility megatrends, cybersecurity, Internet of things, artificial intelligence, Big Data and blockchain, with the purpose of creating joint business that generate added value for Axtel and allow an accelerated growth in scaleups.

In 2018, the third generation of NAVE successfully concluded, in which seven suitable companies were accelerated for Axtel. The trend is to continue focusing the efforts of NAVE on scaleups, given that they are companies that already have a product developed and tested in the market, but need to be supported to grow.

2.9.3) Social Involvement

In 2018, Axtel continued to promote and implement sustainability initiatives aimed at strengthening relations with the community.

Volunteers participated in the "School for Parents" program, an initiative aimed at parents of students of the ALFA Foundation Educational Project, which seeks to reinforce parents' understanding of the challenges faced by adolescents nowadays. The school operates since 2015 thanks to volunteer collaborators, trained by the Tecnológico de Monterrey.

In partnership with Ciudad de los Niños, Nuevo Amanecer and with the generous contributions of our collaborators, educational scholarships are offered to young people of limited resources with outstanding intellectual abilities. Collaborators who wish to do so can donate an amount through a discount via payroll.

In honor of the International Charity Day, from September 3 to 7, 2018, the Charity Week was held, in which organizations such as UNICEF, TECHO, Alliance Against Cancer, Red Nose, United, Community Down and COMUN to you, among others, were invited to visit Axtel's facilities in Monterrey, Mexico and Guadalajara so that collaborators could make contributions to their causes in cash or materials needed.

Together with 50 other companies, organizations, universities and charities, Axtel participated in the Soy Honesto Hoy campaign, promoted by the Civic Council of Nuevo Leon, which seeks to generate a positive impact on collective consciousness to de-normalize corruption. Through organized and coordinated actions, efforts were joined, information was shared, and positive decisions were added to face this unresolved problem in our society.

In addition, Axtel is part of Red SumaRSE Nuevo León, an initiative in which operational partners, government agencies and 27 Mexican companies with presence in the state participate. The objective of this network is to improve the quality of life of six communities in the municipalities of Santa Catarina, Guadalupe, San Nicolás de los Garza, García and Monterrey through the training of citizens in self-management for the resolution of community problems and prevention of social crime and violence.

2.9.4) Labor Welfare

Axtel is integrated by highly trained personnel in its working area and in the industry that it services. Their integral wellbeing is always sought, offering the best health conditions and job security so that they can perform with excellence, putting the necessary tools at their reach, both physically and mentally and developing skills that allow them to grow personally and professionally.

In 2018, the practice outsourcing was eliminated, with the aim of increasing the sense of belonging and reinforcing the cohesion of teams. All employees are offered benefits greater to what is established by law in Mexico, such as double the number of bonuses, major medical insurance, life insurance, savings account, 20-day leave for personal matters, coverage for disability or by disability, as well as maternity and paternity leave. In this regard, 91 maternities and 134 paternity leaves were granted this year, of which 98 and 100 percent respectively rejoined the company.

Likewise, competitive salaries are offered with respect to the market. Employees who are in the lowest salary range, were granted 298 percent more than the minimum wage in Mexico.

For workers who retire or are no longer part of the company, a "Workshop for the Development of Personal Resilience Skills" is offered, in which they are provided with tools for their next personal stage of development, as well as the program "Grow for the Future" that facilitates the creation of a career plan.

Employees who have dedicated their time, knowledge and professionalism to Axtel were given an award of loyalty in 2018 for completing 10 years working with the Company: 361 employees and 75 collaborators were recognized at a national level.

At Axtel, employees are considered a key differentiator in the market; In this sense, during 2018, 18 million pesos were invested in the professional development of the staff in training alternatives in sales, operations and leadership, as well as for certifications for leadership in several different fields.

As part of the digital transformation process, Axtel faces the challenge of forging internally a culture that supports the evolution of which it is a part of. To fulfill this task, key actions were defined, allowing this new philosophy to reach all employees, regardless of their position.

Among these actions is the creation of the Axtel Academy, a virtual space where graduates are offered entry into a specialized segment of the company. In the future, it is expected that it will be incorporated with the *Secretaría de Educación Pública* and that, as part of an educational offer, it will provide certifications and master's degrees. In 2018, two diploma courses were launched by a community of 81 experts from the company: Diploma in Cybersecurity and Diploma in Cloud Solutions. At the end of 2018, 202 employees were taking one of these courses.

Likewise, the Company works to disseminate the same telecommunications and IT language at all levels of Axtel as the essence of the business, enabling them to understand the new era of digitalization of which they are already a part of.

Additionally, in 2018 Family Day was celebrated in a national event attended by 10,289 people, of whom 3 097 were collaborators and 7,192 were relatives.

Education is also encouraged in the employees' children, who are invited to participate at the Axtel Summer Camp in Monterrey. During the camp, children visit Axtel's offices to perform various activities related to the operation of tasks such as safety, health, hygiene, environment, civics and social bonding, as well as recreational activities such as music, yoga, dance and kitchen. This year, 35 girls, 33 boys and seven volunteer collaborators participated.

Axtel continuously promotes the creation of social awareness, sustainability and social responsibility with its employees, their families and other stakeholders through the ALFA Sustainability Week, an annual event that seeks to share applicable environmental, solidarity, financial and social responsibility practices in daily life.

In 2018, content was published on social networks, conferences were held, workshops were organized, and films were shown across the Group's companies following the themes defined for this year's edition: healthy eating habits, disability awareness, breast cancer prevention, medicinal garden workshops, water and energy saving, waste separation and non-disposable day at Axtel. This year ALFA Sustainability Week had 477 people participate in Mexico City, Guadalajara and Monterrey.

In 2018, 1.2 million pesos were invested in preventive health programs, medical consultations, medications, vaccination campaigns and nutrition for employees and their families. To ensure the safety and health of employees and strengthen the importance of attention to this issue, every year the Health, Safety and Hygiene Week is held, which is aligned with the World Health and Safety Day campaign of the International Labor Organization. In 2018, talks were offered on first aid and safe transit, and prevention of stress and anxiety. Providers from the health sector visited the facilities to perform free dental evaluations, eye exams and anti-stress massages.

In addition, a campaign was carried out on how to act in the event of an earthquake. With the same goal in mind, health and wellbeing is promoted through different sports and recreational activities.

This year, 1,320 collaborators from Monterrey and Guadalajara participated in races, soccer, ping-pong and bowling tournaments.

In Industrial Safety, in 2018 there were 1.36 accidents per 100 workers, below the national average of the Ministry of Labor and Social Security (STPS), which is 1.4 accidents. In this same period, no fatalities were registered.

Axtel has 24 Health and Safety Committees that represent 77 percent of the employees, that is, 5 thousand 914 people. In 2017 there were 79 Health and Safety Committees and in 2018 they were reduced to 24 since similar work committees, processes and buildings were integrated with the aim of facilitating the issuance of recommendations, guiding responsibility and demand to a higher level in the organization.

2.9.5) Environmental Awareness

The culture of care and conservation of the environment is essential for the sustainability of the planet and the business. Axtel seeks to generate environmental awareness through campaigns in favor of the environment, as well as maximize the resources used in the operation, while being more cost efficient.

The Company continues to adhere to the Clean Transportation Program and the GEI Mexico Program, and reports to the Carbon Disclosure Project (CDP) on the Climate Change and Suppliers modules with the commitment to reduce greenhouse gas emissions.

During 2018, a campaign was carried out to raise awareness about caring for the environment, where 794 employees were trained. The process for certification in ISO 14001 was also initiated, in which the induction program was offered to 63 people and 10 collaborators were trained as internal auditors in ISO 14001: 2015. The audit to achieve this certification is scheduled for February 2019.

In collaboration with *Reforestemos México*, a voluntary reforestation day was organized in the El Cimatario National Park in Querétaro, in which 75 collaborators and their families reforested 1.6 acres with 1,400 trees of pulque maguey (agave salmiana) and 200 mesquite trees (prosopis glandulosa).

Additionally, Axtel participated in the Environmental Committee of ALFA, where issues related to current legislation and regulations are discussed and reviewed, as well as the initiatives that are promoted in favor of the environment in each company of the Group are presented. At the end of each year, the progress and results of the implemented sustainability initiatives are released to analyze the possibility of replicating them.

A relevant change regarding the information presented in previous years is related to the divestment of the fiber business (FTTx) of the mass market segment located in Monterrey, San Luis Potosí, Aguascalientes, Mexico City, Ciudad Juárez and in the municipality of Zapopan, operation in which Axtel transferred 227 thousand 802 residential and micro business customers, 4 thousand 432 kilometers of fiber optic network and other assets related to the operation of the mass market segment in these cities.

The aforementioned impacts the environmental performance report, since from 2018 onwards, information that in previous years corresponded to the operation of this segment, such as the consumption of fuel for a fleet, the generation of a certain type of waste and the recovery of teams, will no longer be registered.

Regarding the use of clean energy, Axtel has wind power supply in 18 buildings, geothermal in 52 sites and an efficient cogeneration system in the Queretaro Data Center, which together represent 22% of the total energy consumed from cleaner sources. With these measures, during 2017, the emission of 5 thousand 002 tons of CO_2e into the atmosphere was avoided.

Ever since 2011, Axtel continues to encourage the use of technology to reduce paper consumption in billing. This year 3 million 197 thousand 754 electronic invoices were delivered, equivalent to 28.88 tons of unprinted sheets, avoiding the felling of 404 trees.

The Data Centers have been awarded for their energy efficiency. In 2018, Alestra Green Data Center I and II in Querétaro received the "DCD Awards Latin America 2018" prize in the category of Innovation in the Improvement of Energy Efficiency, since they have a cogeneration system to supply themselves with energy. Similarly, it was certified by CEEDA (Certified Energy-Efficient Datacenter Award) together with the Data Center of Apodaca, also for its energy efficiency, sustainability and performance.

2.9.6) Environmental and Sustainability Certifications

- Dow Jones Sustainability Index
- Transporte Limpio
- Empresa Socialmente Responsable
- IPC Sustentable BMV

2.10) Market Information – Mexican Telecommunications Industry

2.10.1) Markets

Axtel is a company focused on the Mexican ICT market with an emphasis on the enterprise and government segments. With a high focus on convergent managed services of Telecom (Networks and Collaboration) and Information Technology solutions (Cybersecurity, Cloud and System Integration), it 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 emphasize Axtel’s important positioning within the financial sector, as in many others.

Enterprise market penetration by service

Service	Market Penetration ’18 (%)
Telecom	**18%**
Managed Networks	14%
Data and Internet	25%
Voice	17%
Information Technologies	**8%**
Data Centers and Cloud Services	12%
Security	13%
System Integration	5%

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

2.10.2) 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. 495 billion in 2018, with an annual growth of 4%. Year 2019 is expected to have a similar growth.

In 2018 a positive performance was seen in the enterprise segment (critical segment for the Company). This market generated Ps. 91 billion, (63% Telecom and 37% TI) a 5% growth compared to 2017.

It is expected that in the following 3 years, this segment will continue growing around 7%. Leveraged mainly by IT services (estimated growth of 14%) and the added value Telecom services, this market includes: Ethernet, Managed Services and Collaboration (estimated growth of 9%).

2.10.3) Competition

The main competitors in the enterprise and government segments are: Telmex (Triara), Grupo Televisa Telecom (Bestel, Telum, among other), KIO Networks, Grupo Megacable 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.

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 and has quickly become the second most relevant operator in the consumer market. 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 (58.7%), DTH (Direct to Home) operator and leader in pay television services in n the country. Televisa offers CATV services, broadband internet and telephony services through double-play and triple-play packages. In November 2014, Televisa 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. In January 2017, the Federal Communications Commission (FCC) of the United States authorized Televisa to acquire 40% of Univisión.

Kio Networks. This company provides an information technology and infrastructure portfolio. It has data centers located in Mexico, Central-America, the Caribbean and Europe.

Megacable. Megacable 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. In 2016, Megacable entered into agreement with Maxcom to acquire its voice, data and video business for mass market customers in Querétaro, Tehuacán and Puebla.

2.10.4) 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 are to be considered as a public service; 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 and licenses, 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 to 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 pay television service providers, and, the pay television service providers must transmit such signal, in each case with the limitation that pay 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 because of the fact that 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.

2.11) 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, and Alesre Insurance Pte, Ltd., a subsidiary incorporated in Singapore.

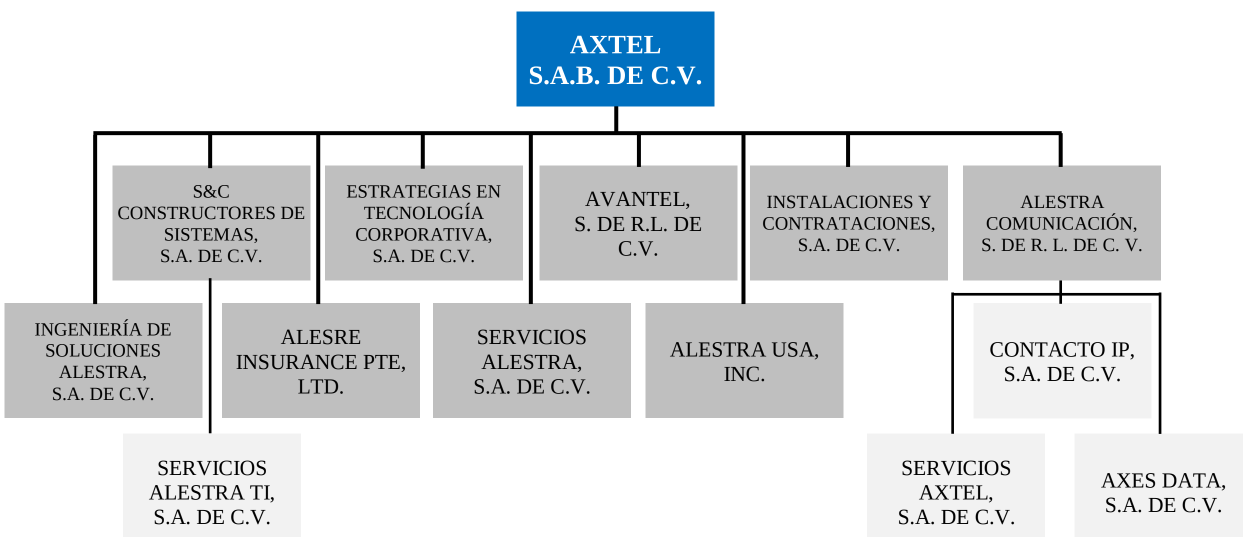
None of Axtel's subsidiaries is considered significant, that is, none represents more than 10% of the total assets or consolidated revenues of the Company in 2018.

On April 27, 2017, a merger agreement was signed for incorporation between Alestra, S de R.L. of C.V. with Axtel, S.A.B. of C.V., said merger was effective as of May 1, 2017 and has no impact on the operation at the consolidated level of the Company.

On February 26, 2019, the merger by incorporation of Avantel, S. de R.L. was approved by the Extraordinary General Shareholders' Meeting. of C.V. ("Avantel") and Servicios Alestra, S.A. of C.V. ("Servicios Alestra") in Axtel, S.A.B. of C.V. ("Axtel"), subsisting Axtel as a merging company and Avantel and Alestra Services as merged companies, said merger will take effect until the expiration of the term established by the applicable legislation.

Below is the percentage of Axtel's shareholding in its subsidiaries as of December 31, 2018 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 mass market (residential and micro businesses), enterprise and government segments.	
Avantel, S. de R. L. de C. V.	Telecommunication Services to the enterprise and government segments.	100%
Servicios Axtel, S.A. de C.V.	Administration Services	100%
Alestra Comunicación, S. de R. L. de C. V.	Telecommunication Services	100%
Axes Data, S.A. de C.V.	Administration Services / No operations	100%
Contacto IP, S.A. de C.V.	Administration Services / Call Center	100%
Instalaciones y Contrataciones, S.A. de C.V.	Administration Services	100%
Servicios Alestra, S.A. de C.V.	Administration Services	99.98%
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.	Telecommunication Services	100%
Alesre Insurance Pte, Ltd.	Without primary operations	100%
Estrategias en Tecnología Corporativa, S.A. de C.V.	Telecommunication Services	100%
Servicios Alestra TI, S.A. de C.V.	Administration Services	100%



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

2.12.1) Facilities

All of the Company's properties are located in Mexico. Its headquarters are within San Pedro Garza Garcia, Nuevo León, Mexico. The Company's corporate office has 39,779 square meters. The lease of this property expires in 2023. Additionally, the Company owns and leases properties in different cities of the country which are used for offices, workcenters or warehouses, switches, data centers, call centers, etc. The buildings of more than 2 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
Corporativo Monterrey	Administrative	Monterrey	39,779	Lease	10/31/2023	05/26/2000
CIC and CDA	Operating Center	Monterrey	5,132	Lease	03/30/2019*	11/02/2009
Switch 1	Technology	Guadalajara	5,550	Axtel	-	-
Reforma Building	Administrative	Mexico	2,177	Lease	31/12/20	03/01/2008
Call Center Culiacán	Operating Center	Culiacan	3,067	Lease	08/31/2019	09/01/2010

** Note: Lease contract to be renewed during 2019.*

2.12.2) Telecommunications Network

The Company has a network infrastructure of approximately 40,430 kilometers of fiber (including 11,000 km of IRU capacity) and more than 6,700 square meters of space in Data Centers. 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 fixed wireless, last mile fiber optic, point-to-point, point-to-multipoint, and copper, all connected through 16,800 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, Genband, among others. Axtel's internet platform is based on Cisco 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 Ciena, Alcatel-Lucent, Nokia-Siemens Networks and Huawei. The combination of these components allows the Company to offer network reliability, which is superior to the network used by other providers.

Axtel's new generation services are provided using world-class Data Centers built in accordance with international standards. Axtel currently owns six Data Centers.

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

- Provide a variety of IT and Telecom services;
- Meet demand quickly;
- Penetrate specific markets, and
- Size 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 while pursuing investment efficiencies.

Access Connectivity

The last-mile connectivity portion of Axtel's network is comprised of a mix of wireless technologies as well as fiber optics for customers within its metropolitan fiber optic rings.

The access technology to be used is determined based on a cost-benefit analysis, based on customers' needs and service availability.

Using the FOM technology with last mile fiber optic services, Axtel also provides advanced data and voice services with high security standards to large companies and financial institutions. With the GPON technology used in the last mile fiber optic network (FTTx), Axtel provides converging services of data, voice and TV with speeds of up to 200 megabits per second in symmetric mode to residential customers and to small and medium sized businesses. By means of the Mass Market Segment divesture, the operations from such segment are considered as discontinued operations, for more information see Note 20 of the Audited Financial Statements included in this Annual Report.

Point-to-multipoint technology is used for clients whose needs range between 10 to 30 POTS lines and/or require low speed private access lines (lower than 2,048 Kbps). Axtel's point-to-point access, like the fiber optic links, is 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 for buildings.

Axtel has contracts with Telefonica Data de Mexico, a subsidiary of Telefonica, pursuant to which Axtel acquired the right to use capacity in Telefonica's long-haul fiber infrastructure which is located between the northern border of Mexico and Mexico City. Pursuant to such contracts, Telefónica Data de Mexico has the right to use a pair of dark fibers in a portion of Axtel's metropolitan fiber rings. Axtel also maintains a similar agreement with Telereunión to use approximately 600 kilometers of long distance fiber optic network in the Gulf of Mexico region.

Local Network

As of December 31, 2018, the transportation infrastructure of the network was 16,850 kilometers of metropolitan fiber optic rings in the cities where it provides services. The network is made up of various technologies, including wireless fixed access, WiMAX, point-to-point, point-to-multipoint and fiber optic technologies to connect residential and business customers.

The following table summarizes Axtel's local infrastructure as of December 31, 2018:

City	FWA Sites	Symmetry	WiMAX	PMP Sites	PTP Links	Switches	FTTx (km)
Monterrey	38	3	87	36	2,787	9	-
Guadalajara	18	2	44	28	1,579	7	459
México	35	10	126	87	5,071	11	-
Puebla	13	3	34	10	682	2	307
Toluca	4	1	22	9	679	1	128
León	9	2	22	8	469	1	242
Querétaro	1	-	16	7	678	-	273
San Luis Potosí	3	2	27	6	619	-	-
Saltillo	7	1	19	7	477	-	-
Aguascalientes	8	2	19	5	381	-	-
Cd. Juárez	5	2	22	7	240	-	-
Tijuana	-	-	17	11	453	1	-
Torreón	5	2	29	6	308	1	-
Others	5	17	328	88	4,938	1	-
TOTAL	**151**	**47**	**812**	**315**	**19,361**	**34**	**1,409**

Long Distance Network

Axtel's long distance transport network is approximately 22,170 kilometers in length, comprising 11,170 km of its own infrastructure and the rest consisting of access through irrevocable right-of-use contracts that support digital hierarchical synchronization ("SDH") and shipping technology through simultaneous channels through different wavelengths ("DWDM - dense wavelength division multiplexing"). SDH allows 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 76 cities through its own infrastructure and 148 additional cities through leased infrastructure. The network covers strategic cities in Mexico and the United States to provide customers with critical cross-border connectivity services through 10 international border crossings.

Voice Switching

The Company uses 14 Genband digital switching centers called the DMS-100. Ten of these centers route traffic in 18 cities. Four of these centers specialize in receiving and sending long distance traffic from the country's 397 service areas 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 to route traffic from the rest of the cities (53 cities). Also, it has four Ericsson AXE TL4 Digital Switching Centers for local service, two located in Mexico City, one in Monterrey and one in Guadalajara, covering 22 cities. Finally, the Company has two new generation digital switches (Softswitchs), SoftX3000 Huawei Softswitches, that provide local services to 11 cities and commute all international voice over IP traffic. Additionally, the Company also has 4 5ESS stations that provide local service to 7 cities, as well as 4 Sonus SoftSwitch that route traffic from 59 cities. Axtel also has the Brodsoft platform that gives local service to the 34 cities for the average market SIP Lines.

DMS switches have the capacity to handle approximately up to 110,000 lines and the CS 2000 handles up to 180,000 lines. Both models work on modular bases and provide analog lines, E1 digital lines, high-speed digital data services, centrex services and operator assistance services. In addition, the CS 2000 model can provide multimedia capabilities by supporting multiple Next Generation Protocols. Both switch models can provide clear-channel digital private lines, data transmission and value-added services such as four-digit dialing, tripartite conferences, caller ID, call waiting, automatic dialing and smart lines, among others. Sonus SoftSwitch provides voice over IP services.

Data Centers

Axtel's new generation services are provided using world-class Data Centers built in accordance with international standards. Axtel currently owns six Data Centers with more than 6,700m2 of capacity nationwide with ICREA (International Computer Room Experts Association) level 3 through 5 certifications. The Data Center in Querétaro is the first in Latin America with an energy cogeneration system and has obtained the ICREA 5 certification.

The following table details the main characteristics of the Data Centers as of December 31, 2018:

Data Centers	**Total Area (m2)**	**ICREA Certification**
Querétaro 1	3,264	3 & 5
Querétaro 2	580	3
Monterrey	2,370	3 & 4
Guadalajara	118	No
México	400	4
Total	**6,732**	**---**

Network Administration

Axtel has six centers of monitoring and administration of national network, five located in Monterrey and another one in Guadalajara. Our centers supervise the correct operation of connections and equipment. The monitoring occurs 24 hours a day, seven days a week. When there is an inappropriate network performance, the centers initiate the process to correct any fault and notify the affected areas of such fault.

Information Technology Systems

Axtel has an information technology architecture that is based upon Siebel, a customer relationship management system (CRM), SAP software for enterprise resource planning (ERP) and financial and administrative functions, Comverse Technology Inc. software for billing and Net Boss 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.

2.12.3) 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 against three categories of risks: (i) assets; (ii) transportation and (iii) civil liability. The all-risk policy insures assets from hurricanes and other weather conditions, earthquakes, equipment failures and other disasters. Transportation policies provide coverage for all import and export equipment, whether shipped by air, land or sea. There are also liability policies, which provide coverage for damages to third parties and insure assets, products and people, including advisors and managers. 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.

2.13) Judicial, Administrative and other Legal Proceedings

Interconnection Disagreements with other mobile operators.

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

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

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

b) Grupo Telefónica.

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

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

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

c) Grupo Iusacell (today AT&T).

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

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

d) Interconnection disagreements with Telmex & Telnor.

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

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

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

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

2011 period, has obtained final favorable ruling. The claim against Alestra for such period is still in the process of being adjudicated.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Contingencies

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

2.14) Capital Stock

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.

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 what the CNBV establishes.

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 repurchase of shares during 2019 will be Ps. 150 million.

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

In 2018, there were no variations in the Company’s capital stock.

However, at the Extraordinary General Shareholders' Meeting held on March 10, 2017, the reduction of the Company's share capital in its minimum fixed part for a total amount of Ps. 9,868.3 million with the objective of absorbing the accumulated losses of previous years for a total amount of Ps. 10,513.0 million, having previously applied the share issue premium of Ps. 644.7 million. Said capital decrease was carried out without modifying or reducing the number of shares representing the Company's capital stock.

On July 18, 2017, and in accordance with the resolutions adopted at the Extraordinary General Shareholders' Meeting held on January 15, 2016 related to the merger of Onexa, SA de CV, in Axtel, 1,019,287,950 Class "I shares were delivered to ALFA. "of Series" B ", which represent an additional property for ALFA of 2.50% in Axtel. The shares were previously held in Axtel's Treasury and their payment to ALFA canceled the previously recognized liability of Axtel as consideration for said merger.

After the events described above, the Company's capital stock as of December 31, 2017 is Ps. 464.4 million and is comprised of 20,249,227,481 ordinary shares, nominative, without par value, of Class "I" Series "B", fully subscribed and paid. As of this date, all 99% (ninety-nine percent) of total shares representing the capital stock of the Company, were deposited in the CPOs Trust.

The movement of the number of ordinary shares of the Company during 2018 and 2017 was as follows:

	Number of Shares
Initial Balance as of January 1st 2017	19,229,939,531
Shares issued to ALFA	1,019,287,950

Final Balance as of December 31st 2017	20,249,227,481
Year’s movements	-
Final Balance as of December 31st 2018	20,249,227,481

In 2016, due to the merger between Alestra and Axtel, the following were approved: (i) the cancellation of 287,141,239 Class "I" Series "B" Shares of the Company, (ii) the reissue of 287,141,239 Class "I" Series "B" Shares "Issued but not subscribed that were conserved in the treasury of the Company to be subscribed by conversion of bonds convertible into shares in terms of the resolutions adopted by the extraordinary general meeting of the Company dated January 25, 2013; (iii) the issuance of 97,750,656 Class "I" Series "A" Shares and 9,571,214,832 Class "I" Series "B" Shares, for a value of Ps. 3,464.3 million, which were subscribed by ALFA to be subscribed by the shareholders of Onexa, SA de CV pursuant to its shareholding in said company as part of the Consideration for the merger, the foregoing, when the merger took effect ;, and (iv) the issuance of 4,279,126 shares of Class "I" Series A and 1,015,008,824 shares of Class "I" Series "B", to be held in the Company's treasury, free of the pre-emptive subscription right as they are issued shares as part of the Consideration for the merger, to be delivered to ALFA.

The following is an analysis of the effect by merger in the stockholders' equity of the company:

(in thousands of pesos)	**Capital Stock**	**Merger reserve**	**Total**
Issuance of Shares	$3,464,252	$ 3,385,870	(*) $6,850,122
Difference between fair value and the Shareholders’ equity of Onexa (*)	-	(3,482,023)	(3,482,023)
Transfer to the reserve	(128,491)	128,491	-
Indemnification	-	(983,747)	(983,747)
Financial Liability	-	(246,396)	(246,396)
	$3,335,761	$(1,197,805)	$2,137,956

(*) Corresponds to the fair value of shares issued for merger, considering the estimated unit price of the shares at the date of the merger, which amounted to Ps. 6,850.1 million.

Accordingly, by means of resolutions adopted at the Extraordinary General Shareholders’ Meeting held on July 21, 2016, among others, the following amendments were approved: (i) any changes in the capital stock resulting from conversions exercised or, if not exercised, of bonds convertible into shares; (ii) the cancellation of 182'307,349 Class "I" Series "B" shares, unsubscribed or paid, which had been deposited in the treasury of the company to support the conversions of the convertible bonds, whose holders did not exercise the respective conversion right, and as a consequence, the reduction of authorized capital stock; and (iii) the consolidation in a single series of all shares currently forming part of the capital stock, by converting Series "A" shares into Series "B" shares, with the same characteristics as those currently in circulation. During 2016, the reserve that was held for the repurchase of shares for Ps. 90.0 million was cancelled. Likewise, during 2016 and 2015, conversion options were exercised for a total of Ps. 36.1 million, equivalent to 104,833,887 shares and Ps. 133.6 million, equivalent to 388,180,282 shares, respectively.

During the year ended December 31, 2016, the Company suffered net losses of Ps. 3,599.3 million, had an accumulated deficit of Ps. 8,486.6 million and an excess of short-term liabilities over current assets of Ps. 1,532.5 million. As of December 31, 2016, the Company had lost more than two thirds of its capital stock, legally this is cause for dissolution, in which any interested party may request to be declared by the judicial authorities. However, the main shareholder expressed its intention to support the Company to allow it to continue operating. As of December 31, 2018, said situation no longer prevails in the Company considering the events described above.

Derivative financial instruments whose underlying is shares or CPOs of Axtel

As of December 31, 2018, 2017 and 2016, 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. Contracts signed prior to October 2016 could only be settled in cash. From that date, the term of the contracts pending settlement was extended and, because of this negotiation, 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. For more information, see section *3.4.2) Financial situation, liquidity and capital resources - Financial instruments.*

2.15) Dividends

The determination, amount and payment of dividends shall be determined by the majority vote of the Shares Series A and Shares of Series B in a shareholders meeting. In accordance with the Mexican legislation, the Company can solely pay dividends at the expense of retained profits when the losses of previous exercises have been covered.

The shareholders meeting of Axtel has not determined a specific policy of dividends, since the Company is restricted to pay dividends in accordance with its bylaws and pursuant to certain loan and debt issuance currently in place. The Company has the intention to retain future profits to finance the development and expansion of the business and therefore there is no intention of paying dividends in cash or in CPOS in the near future and while the above mentioned, restrictions, continue to. Any declaration or payment of dividends in the future will be carried out in accordance with the Mexican legislation and will depend on various factors, including the results of operation, the financial situation, the needs of cash, future considerations of tax nature, projects and any other factors that the advice of Board of Directors and the shareholders consider important, including the terms and conditions of loan agreements currently in place.

3) FINANCIAL INFORMATION

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, 2018, 2017 and 2016 and for the years then ended, derived from the information contained in the audited consolidated Audited Financial Statements attached to this Annual Report.

The merger between Alestra and Axtel took effect on February 15, 2016, the date from which Alestra is incorporated in Axtel's financial statements. For information and comparison purposes between years 2017 and 2016, unaudited pro forma figures are included for the year 2016, that is, consolidating Alestra's results as of January 1, 2016.

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.

	Years ended December 31,				
	2018	**2017**	**2017 Adjusted (2)**	**2016**	**2016 Pro forma(3)**
(in million pesos)					
Income Statement:					
Revenues	12,788.5	12,544.1	15,513.1	13,937.3	14,718.1
Operating costs and expenses (4)	(12,093.0)	(11,608.7)	(14,107.4)	(14,146.7)	(14,780.5)
Operating profit (loss)	695.5	935.4	1,405.7	(209.4)	(62.4)
Interest expense, net	(1,816.5)	(1,589.8)	(1,590.3)	(2,077.7)	(1,873.9)
Exchange gain (loss), net	186.9	648.3	648.3	(2,778.7)	(3,066)
Change in fair value of financial assets, net	(35.2)	27.1	27.1	-	224.3
Share of results in associates, net	—	—	—	(5.2)	(5.2)
Profit (Loss) before taxes	(969.3)	20.9	490.7	(5,071.0)	(5,231.8)
Income taxes	(37.3)	(287.5)	(428.5)	1,471.7	1,541.2
Discontinued Operations (1)	2,101.3	328.9	0	NA	NA
Net Profit (loss)	1,094.7	62.2	62.2	(3,599.3)	(3,690.6)
(Loss) per share:					
(Loss) per basic and diluted share	(0.054)	(0.003)	(0.003)	(0.2)	(0.2)
Weighted average of common outstanding shares (millions):	20,249.2	19,739.5	19,739.5	18,415.9	18,415.9
Dividends decreed per share	—	—	—	—	—
Other Financial information:					
Depreciation, amortization and impairment of assets	3,697.3	3,364.9	4,045.6	3,882.4	4,011.3
EBITDA (5)	4,392.8	4,300.2	5,451.2	3,673.0	3,948.9
EBITDA as percentage of revenues	34.3%	34.3%	35.1%	26.4%	26.8%

1) Operations of the Mass Market Segment, both the portion of the fiber business sold to Televisa in December 2018, and the part that was not included in the sale, and that will continue to be operated by Axtel while continuing to seek divestment opportunities, are classified as discontinued because they meet the requirements of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Therefore, they are presented separately in the consolidated statement of results for 2018 and 2017 as the comparative year. For more information, see Note 20 of the Financial Statements appended to this Annual Report.
2) For the year 2017, and for comparative purposes, the results of the Mass Segment are considered as a continuous operation, as in 2016.

3) The merger between Alestra and Axtel took effect on February 15, 2016, the date from which Alestra is incorporated in Axtel's financial statements. For information and comparison purposes between years 2017 and 2016, unaudited pro forma figures are included for the year 2015, that is, consolidating Alestra's results as of January 1, 2016.
4) This means cost of sale and services, plus administrative and selling expenses, plus depreciation and amortization, plus other operating income (expenses).
5) 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.

	Years ended December 31,		
	2018	**2017**	**2016**
(in million pesos)			
Statement of Cash Flows:			
Net Cash Flow from			
Operating Activities........................	5,411.0	4,394.7	3,897.7
Investing Activities.........................	(2,376.0)	(2,307.3)	(3,527.1)
Financing Activities........................	(6,811.8)	(2,347.2)	(1,675.0)
(Net decrease) Net increases in cash or cash equivalents..............................	975.2	(259.8)	(1,304.5)

	As of December 31,		
	2018	**2017**	**2016**
(in million pesos)			
Balance Sheet:			
Cash and equivalents	2,249.1	1,257.8	1,447.2
Net working capital (1)........................	(989.6)	(565.6)	421.0
Total assets	28,155.8	30,753.8	32,175.7
Total debt...	15,622.7	20,422.7	21,514.4
Total liabilities...................................	24,534.9	28,261.4	29,775.5
Total stockholder's equity..................	3,620.9	2,492.4	2,400.2
Net assets (2).......................................	15,115.9	18,710.2	20,040.5
Capital common stock	464.4	464.4	10,233.8
Shares outstanding (in millions).........	20,249.2	20,249.2	19,229.9

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 Board of Directors and the CEO, evaluate the performance of the Company by tracking the following indicators:

	2018				2017				2016			
(in million pesos)	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
TOTAL REVENUES	**3,048.6**	**3,154.0**	**3,139.9**	**3,446.0**	**2,916.8**	**3,036.6**	**3,029.6**	**3,561.1**	**2,839.6**	**3,478.2**	**3,836.2**	**3,783.3**
Enterprise:	**2,519.9**	**2,513.0**	**2,548.0**	**2,732.4**	**2,393.9**	**2,468.4**	**2,489.9**	**2,620.5**	**1,630.9**	**2,271.7**	**2,430.6**	**2,450.6**
Telecom	2,234.0	2,201.8	2,226.0	2,340.3	2,156.5	2,210.5	2,214.4	2,268.0	1,511.8	2,051.2	2,209.3	2,207.3
Voice	*514.5*	*531.9*	*474.8*	*460.3*	*603.6*	*618.1*	*563.4*	*558.0*	*538.5*	*660.3*	*685.1*	*627.5*
Data and Internet	*861.5*	*867.7*	*895.2*	*931.6*	*836.4*	*838.6*	*894.4*	*944.3*	*476.1*	*760.1*	*769.8*	*832.5*
Managed Networks	*858.0*	*802.3*	*855.9*	*948.3*	*716.4*	*753.9*	*756.6*	*765.7*	*497.1*	*630.8*	*754.4*	*747.3*
IT	285.9	311.2	322.0	392.1	237.4	257.9	275.4	352.5	119.1	220.5	221.3	243.3
Government:	**528.7**	**641.0**	**591.9**	**713.6**	**522.9**	**568.3**	**539.7**	**940.6**	**438.2**	**400.1**	**628.1**	**557.5**
Telecom	354.6	416.0	389.6	14.1	315.7	343.7	352.4	580.8	244.3	150.0	281.4	246.8
Voice	*37.9*	*38.8*	*36.7*	*26.5*	*41.4*	*49.3*	*35.6*	*40.1*	*41.2*	*46.6*	*32.0*	*35.9*
Data and Internet	*62.4*	*91.6*	*105.1*	*44.3*	*83.2*	*87.6*	*99.8*	*102.9*	*72.5*	*89.3*	*88.2*	*100.1*
Managed Networks	*254.4*	*285.6*	*247.8*	*(56.6)*	*191.1*	*206.8*	*216.9*	*437.9*	*130.6*	*14.1*	*161.2*	*110.7*
IT	174.1	225.1	202.3	699.5	207.2	224.5	187.3	359.8	193.8	250.1	346.7	310.8
Mass Market:									**770.5**	**806.4**	**777.5**	**775.2**
FTTx									446.6	493.6	498.7	520.4
Wireless									323.9	312.8	278.8	254.7
COSTS AND OPERATING EXPENSES. (1)	**(2,066.1)**	**(2,102.9)**	**(2,107.9)**	**(2,400.3)**	**(1,990.1)**	**(2,123.5)**	**(2,090.6)**	**(2,569.7)**	**(1,986.4)**	**(2,314.0)**	**(2,512.2)**	**(2,602.4)**
OTHER INCOME (EXPENSES)	**121.8**	**95.5**	**13.3**	**51.0**	**(38.3)**	**297.6**	**94.7**	**176.0**	**(494.2)**	**(24.9)**	**(59.4)**	**(270.8)**
Merger-related expenses (2)					*(37.9)*	*(50.3)*	*(104.6)*	*(235.8)*	*(471.6)*	*(28.2)*	*(59.4)*	*(278.4)*

(1) Does not include depreciation and amortization.
(2) Non recurring expenses derived from the merger between Axtel and Alestra

Revenues

The Company obtains its revenues from the following categories:

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

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

- *Voice:* Local and international long distance calls to fixed and mobile telephones, 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 and collaboration, among others.

b. *Information Technologies ("IT"):* The Company generates revenues providing IT services to the Enterprise segment, such as system integration, hosting, managed applications, security and cloud services, among others.

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

The following table summarizes the income and percentage of income from these categories:

(in million pesos)	**Revenues**				**% of Revenues**			
Revenues	**2018**	**2017**	**2016**	**2016 Pro forma[(1)]**	**2018**	**2017**	**2016**	**2016 Pro forma[(1)]**
Enterprise:	**10,313.3**	**9,972.7**	**8,783.8**	**9,508.1**	**81%**	**80%**	**63%**	**65%**
Telecom	9,002.2	8,849.4	7,979.6	8,611.2	87%	89%	57%	59%
Voice	*1,981.5*	*2,343.1*	*2,511.5*	*2,687.8*	*19%*	*23%*	*18%*	*18%*
Data & Internet	*3,556.1*	*3,513.7*	*2,838.5*	*3,115.3*	*34%*	*35%*	*20%*	*21%*
Managed Networks	*3,464.6*	*2,992.6*	*2,629.7*	*2,808.3*	*34%*	*30%*	*19%*	*19%*
IT	1,311.1	1,123.3	804.2	896.7	13%	11%	6%	6%
Government:	**2,475.2**	**2,571.4**	**2,023.9**	**2,080.4**	**19%**	**20%**	**15%**	**14%**
Telecom	1,174.3	1,592.6	922.5	937.0	47%	62%	7%	6%
Voice	*139.8*	*166.4*	*155.8*	*155.2*	*6%*	*6%*	*1%*	*1%*
Data & Internet	*303.3*	*373.5*	*350.0*	*356.1*	*12%*	*15%*	*3%*	*2%*
Managed Networks	*731.2*	*1,052.7*	*416.7*	*425.8*	*30%*	*41%*	*3%*	*3%*
IT	1,300.8	978.8	1,101.4	1,143.3	53%	38%	8%	8%
Mass Market:			**3,129.6**	**3,129.6**			**22%**	**21%**
FTTx			1,959.3	1,959.3			14%	13%
Wireless			1,170.3	1,170.3			8%	8%
TOTAL	**12,788.5**	**12,544.1**	**13,937.3**	**14,718.1**	**100%**	**100%**	**100%**	**100%**

(1) The Merger between Alestra and Axtel took effect on February 15, 2016, date from which Alestra incorporated into Axtel's financial statements. For information and comparison purposes between 2017 and 2016, unaudited pro forma figures for 2016 are included, that is, consolidating Alestra's results as of January 1, 2016.

Costs and Operating Expenses

The costs of the Company are classified of the following form:

- Cost of sales includes expenses related to the completion of calls of our clients to mobile telephones and long distance calls on other suppliers' networks, as well as expenses related to invoicing, reception of payments, services of operators and private leased links.
- Operating Expenses include expenses related to general and administrative items that include compensations and benefits, the expense of leasing properties and towers required for our operations and expenses associated with sales and marketing and the maintenance of our network.
- Depreciation and amortization include the depreciation of all the infrastructure and equipment of our network and the amortization of pre-operative expenses, as well as the cost of the concessions and the licenses of use of radio-electric spectrum. Additionally, for 2016, it includes the impairment of long-lived assets.

Merger-related expenses

In 2017 and 2016, non-recurring expenses were incurred associated with the merger between Alestra and Axtel previously mentioned. These expenses are broken down to analyze their impact on the Company's results.

3.3) Relevant Credit Agreements

As of December 31, 2018 and 2017, the balance of Axtel's relevant credits was $15,622.7 million and $20,422.7 million, respectively. The following table shows the integration of in million Pesos:

Description of Credits	As of December 31, 2018	As of December 31, 2017
Bank loan with Bancomext at TIIE + 2.1% maturing in 2028. Interests payable quarterly.	3,263.5	--
Bank loan with Bancomext at Libor + 3% maturing in 2024. Interests payable quarterly.	--	3,562.2
Unsecured Senior Notes due on November 14, 2024. Interest payable semi-annually at an annual interest rate of 6.375%.	9,841.4	9,867.7
Syndicated loan due December 15, 2022. Interests payable monthly at a rate of TIIE + 2.375%.	1,570.0	5,708.7
Bilateral loan with Export Development Canada for up to US $ 50 million, or its equivalent in pesos, with maturity on June 1, 2021. Interests payable monthly at TIIE91d + 1.875%.	300.0	--
Credit agreement with HSBC México due March 20, 2018. Interests payable monthly at a rate of TIIE + 2.50%.	--	400.0
Bank loan with BBVA Bancomer, at an interest rate of 6.92%.	--	300.0
Indefeasible Rights of Use (IRU) capacity lease entered into with Teléfonos de México, S.A.B. Of C.V. For an approximate original amount of Ps. 708,041 expiring in 2019.	--	266.5
Financial leases entered into 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.	740.1	370.0
Accrued interests	123.8	145.7
Issuance costs	(216.2)	(198.1)
TOTAL	**$ 15,622.7**	**$20,422.7**

In addition to short-term and long-term financial liabilities that are reflected in the 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: which is defined as adjusted EBITDA 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 for each quarter.

For each quarter of 2019, this factor cannot exceed 4.00 times; from the first quarter of 2020 and from there on this factor cannot exceed 3.50 times.
* For Senior Notes, the leverage ratio cannot exceed 4.25 times.

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

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

As of December 31, 2018 and as of the date of issuance of 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

3.4.1) Operating results for the years ended December 31, 2018 and December 31, 2017

Revenues.

For the twelve-month period ended December 31, 2018, total revenues were Ps. 12,788 million, compared to Ps. 12,544 million in the same period of 2017, an increase of Ps. 244 million or 2%, mainly explained by an 3% increase in enterprise segment revenues.

The revenues of the Company are composed of the following segments:

Enterprise. For the year 2018, revenues amounted to Ps. 10,313 million, compared to Ps. 9,973 million in 2017, an increase of 3%, derived from a 2% and 17% increase in Telecom and IT services, respectively.

Enterprise Telecom. For the year 2018, revenues totaled Ps. 9,002 million, compared to Ps. 8,849 million in 2017, a 2% increase, mainly due to an increase in *Managed Networks* revenues that resulted from a positive performance of Ethernet, VPN and Managed Services; partially mitigated by a decrease of 15% in *Voice* revenues due to a decline in fixed to mobile revenues and 800s number and international traffic. *Data and Internet* revenues increased 1% due to the growing demand for dedicated internet from existing customers, partially mitigated by a decrease in data revenues.

Enterprise IT. For the year 2018, revenues from the *IT* segment totaled Ps. 1,311 million, compared to Ps. 1,123 million in 2017, a 17% increase driven by a 26% growth in *hosting*, *cloud services, managed applications* and *security*.

Government. Revenues for 2018 totaled Ps. 2,475 million, compared to Ps. 2,571 million in 2017, a 4% decline.

Telecom Government. For 2018, revenues reached Ps. 1,174 million, compared to Ps. 1,593 million in 2017, a 26% decrease, mainly due to a 31% reduction in *Managed Networks* revenues, as a result of extraordinary levels of non-recurrent revenues recorded in the fourth quarter of 2017. *Voice* revenues fell 16% due to a decrease in fixed to mobile revenues, as well as a 19% decline in *Data and Internet* revenues due to a lower demand for data.

IT Government. For 2018, IT revenues totaled Ps. 1,301 million, compared to Ps. 979 million in 2017, a 33% increase, due to an 81% and 39% growth in *managed applications* and *security*.

Cost of Revenues, Expenses, EBITDA and Operating Profit

Cost of Revenues. For the year 2018, cost of sales represented Ps. 3,357 million, a 2% decrease compared to Ps. 3,441 million in 2017. This reduction is explained by a 15% decrease in *Telecom* costs, specifically in *Managed Networks* from the government segment and *Voice* from the enterprise segment; both associated to lower revenue levels. IT costs recorded a 38% increase mainly due to higher costs of *managed applications* and *security* from the government segment.

Gross profit. Gross profit is defined as income minus cost of sales. For the year 2018, gross profit represented Ps. 9,431 million, 4% higher than Ps. 9,103 million in 2017, due to increases in revenues and improved margins in the enterprise segment; partially mitigated by lower levels of revenues and margins in the government sector. The gross profit margin increased from 72.6% to 73.7% year-over-year, mainly due to an improvement in enterprise segment's margins.

Operating expenses. For 2018, operating expenses totaled Ps. 5,320 million, unchanged compared to Ps. 5,333 million recorded in 2017, as the rise in tower leases and salaries were mitigated by decreases in outsourcing expenses and in uncollectible reserves.

Other income (expenses). For the year 2018, other income represented Ps. 282 million, compared to Ps. 530 million in 2017. The figures include Ps. 224 million and Ps. 840 million of other income from the tower sale in 2018 and 2017, respectively. Other income in 2017 was mitigated by merger-related extraordinary expenses of Ps. 429 million.

EBITDA. The EBITDA, defined as operating income plus depreciation and amortization and impairment of assets, reached Ps. 4,393 million in 2018, 2% higher compared to Ps. 4,300 million in 2017. Excluding merger-related expenses and tower sale related income, EBITDA totaled Ps. 4,169 million in 2018 and Ps. 3,888 million in 2017, a 7% increase.

Depreciation, Amortization and Impairment of Assets. The depreciation and amortization for 2018 amounted Ps. 3,697 million, a 10% increase compared to Ps. 3,365 million in 2017, which mainly corresponds to a higher number of assets directly associated to projects from government and enterprise clients.

Operating Income (Loss). For 2018, the Company recorded an operating income of Ps. 695 million compared to Ps. 935 million in 2017, a 26% decrease mainly due to higher level of non-recurring income derived from the tower sale in 2017, as well as increases in depreciation and amortization.

Comprehensive Financial Result, net

The comprehensive financial result rose 82%, from Ps. 914 million in 2017 to Ps. 1,665 million in 2018. This increase is explained by a higher level of interest expense related to higher interest rates. Additionally, during 2018, an exchange rate gain of Ps. 187 million was obtained due to a 0.3% appreciation of the Mexican peso against the US dollar, lower than the Ps. 648 million gain in 2017 associated to a 4.7% appreciation of the Mexican peso.

Taxes

During 2018 the income tax reached Ps. 37 million, compared to Ps. 288 million in the previous year. This variation is due to a tax profit of Ps. 34 million generated in the year 2018 from differed taxes, compared to the Ps. 172 million expense from differed taxes in 2017.

Discontinued Operations

For the years 2018 and 2017, the Company recorded the results of its mass market segment as discontinued operations, given the expectation of divesting the remaining part of the FTTx business and the erosion of the clients' base that receive their services through wireless technologies. The net income tax from the mass market in 2018 was Ps. 2,101 million, higher than the figure of Ps. 329 million recorded in 2017. This increase is due to the Ps. 2,786 million in other income related to the FTTx business sale of the mass market segment in 2018.

Net Income (Loss)

The Company recorded a net income of Ps. 1,095 million in 2018, compared to a net income of Ps. 62 million recorded in 2017. This variation is explained by other income of Ps. 2,786 million related to the sale of the FTTx business of the mass market segment in December 2018.

Capital Investments

For the twelve-month period ended December 31, 2018, the capital investment in property, plant and equipment and intangibles amounted Ps. 1,870 million, compared to Ps. 2,507 million in 2017. Additionally, benefits of Ps. 255 million and Ps. 840 million were recorded from the Tower sales in 2018 and 2017, respectively.

Operating results for the years ended December 31, 2017 and December 31, 2016

The figures include Alestra as of February 15, 2016. However, for comparison purposes, reference is made to pro forma figures for 2016, which include Alestra's results as of January 1, 2016. These Pro forma figures are in section 3.2) Financial Information per Line of Business.

Likewise, the results from the Mass Market segment are recorded as discontinued operations in 2017. Nevertheless, for comparison purposes with year 2016, Mass Market results will be considered as continuous operations.

Revenues.

For the twelve-month period ended December 31, 2017, total revenues reached Ps. 12,544 million. Considering the results from the Mass Market segment, revenues for 2017 totaled Ps. 15,513 million, compared to Ps. 13,937 million in the same period of 2016, an increase of Ps. 1,576 million or 11%. Revenues for 2017 increased Ps. 795 million or 5% compared to pro forma 2016 revenues of Ps. 14,718 million, mainly explained by an 8% increase in enterprise and government segment revenues.

The revenues of the Company are composed of the following segments:

Enterprise. For the year 2017, revenues amounted to Ps. 9,945 million, compared to Ps. 8,784 million in 2016, an increase of 13%. Revenues in 2017 were 5% higher than Ps. 9,508 million in 2016 pro forma derived from a 2% and 25% increase in Telecom and IT services, respectively.

> ***Enterprise Telecom***. For 2017, revenues totaled Ps. 8,822 million, compared to Ps. 7,980 million in 2016, an 11% increase. Revenues in 2017 rose 2% compared to Ps. 8,611 million in 2016 pro forma, due to increases in *Data and Internet* and *Managed Networks* revenues, partially mitigated by a decrease of 13% from *Voice* revenues explained by a decrease in fixed to mobile revenues and 800s number and international traffic. *Data and Internet* revenues increased 12% due to the growing demand for dedicated internet from existing customers. Revenues from *Managed Networks* increased 7% due to a positive performance of Ethernet revenues.
>
> ***Enterprise IT***. For the year 2017, IT revenues totaled Ps. 1,123 million, compared to Ps. 804 million in 2016, a 40% increase. Revenues in 2017 increased 25% compared to Ps. 897 million in 2016 pro forma, driven by growth in *system integration*, *hosting*, *cloud* services and *security*.

Government. Revenues for 2017 totaled Ps. 2,571 million, compared to Ps. 2,024 million in 2016, an increase of 27%. Revenues in 2017 increased 24% compared to Ps. 2,080 million in 2016 pro forma.

> ***Telecom Government***. For the year 2017, revenues amounted to Ps. 1,593 million, compared to Ps. 923 million in 2016, an increase of 73%. Revenues in 2017 were 70% higher than Ps. 937 million in 2016 pro forma, mainly due to an increase in revenues from *Managed Networks*. *Voice* revenues increased 7%, explained by an increase in rents, mitigated by drops in revenue from fixed to mobile and 800 numbers. *Data and Internet* revenues increased 5% due to growing demand for dedicated internet. Revenues from *Managed Networks* increased 147% as a result of a positive performance in VPN sales and extraordinary revenues from *Managed Services* registered during the last quarter in 2017.
>
> ***IT Government***. For the year 2017, revenues from the *IT* segment totaled Ps. 979 million, compared to Ps. 1,101 million in 2016, an 11% decrease. Revenues in 2017 were 14% lower than the Ps. 1,143 million in proforma 2016, due to a 42% decrease in *system integration* due to a high levels of equipment sales in 2016 that were not repeated in 2017.

Mass Market. Considering the Mass Market segment revenues as a continuous operation, they decreased 4% to Ps. 2,996 million in 2017 compared to Ps. 3,130 million in 2016.

> ***FTTx***. Income from FTTx totaled Ps. 2,245 million in 2017, compared to Ps. 1,959 million in 2016, a 15% increase, in line with the 13% growth in number of customers. *Voice* revenues rose 14% due to a 19% increase in monthly income, mitigated by a drop in fixed to mobile revenues. *Internet* revenues grew 14% as a result of an increase in subscribers and *video* revenues rose 7% even with a 2% decrease in subscribers.
>
> ***Wireless Technologies***. Income totaled Ps. 751 million in 2017, compared to Ps. 1,170 million in 2016, a 36% decrease compared to a 44% decline in customers.

Cost of Revenues, Expenses, EBITDA and Operating Profit

Cost of Revenues. For 2017, cost of sales represented Ps. 3,441 million. Considering the results from the Mass Market Segment, costs reached Ps. 3,947 million in 2017, an increase of 44% or Ps. 1,200 million, compared to Ps. 2,748 million in 2016. Such costs represented an increase of 35% compared to Ps. 2,933 million in 2016 pro forma, mainly due to rises in costs of the government sector associated to an increase in non-recurrent costs in Telecom services. Telecom costs increased 53% mainly due to a rise in *managed networks* associated with a higher revenue level. IT costs rose 5% and mass market costs increased 16% due to a non-recurrent benefit from voice costs in 2016. Additionally, as part of the merger of accounting policies between Axtel and Alestra, costs previously registered as expenses related to billing, collection and maintenance directly associated with customers, were recorded as costs as of 2017. This adjustment represents an increase of Ps. 424 million in 2017.

Gross profit. Gross profit is defined as income minus cost of sales. For the year 2017, gross profit totaled Ps. 9,103 million. Considering the results from the mass market segment, gross profit reached Ps. 11,566 million, 3% higher than Ps. 11,190 in 2016. Gross profit in 2017 decreased 2% compared to Ps. 11,785 million in 2016 pro forma, due to a sharp fall in revenues and the contribution margins of both government and mass market segments, partially mitigated by increases in the enterprise segment. The gross profit margin fell from 80.1% to 74.6% year-over-year, mainly due to an increase in non-recurrent revenues or extraordinary projects, such as sale of equipment, which have lower margins, in both the enterprise and government segments.

Operating expenses. In 2017, operating expenses amounted to Ps. 5,333 million. Considering the results from the mass market segment, operating expenses totaled Ps. 6,645 million, remaining unchanged compared to Ps. 6,667 million recorded in 2016. Operating expenses in 2017 decreased 5% compared to Ps. 6,984 million in 2016 pro forma, due to decreases in outsourcing and maintenance derived from the synergies from the merger between Axtel and Alestra.

Other income (expenses). For the year 2017, other income represented Ps. 530 million. Likewise, considering the results from the mass market segment, other income represented Ps. 530 million, compared to other expenses of Ps. 850 million in 2016 or Ps. 852 million in 2016 pro forma. The 2017 figure includes an extraordinary income of Ps. 820 million related to the Tower sale to MATC Digital, a subsidiary of American Tower Corporation. Additionally, the figures include extraordinary expenses related to the merger of Ps. 429 million in 2017 and Ps. 838 million in 2016.

EBITDA. The EBITDA, defined as operating income plus depreciation and amortization and impairment of assets, amounted to Ps. 4,300 million. Considering the results from the Mass Market Segment, EBITDA totaled Ps. 5,451 million in 2017, 48% higher compared to Ps. 3,673 million in 2016. The EBITDA in 2017 registered a rise of 38% compared to Ps. 3,949 million in pro forma 2016. Excluding merger-related expenses and tower sale income, EBITDA reached Ps. 5,060 million in 2017 and Ps. 4,786 million in 2016 pro forma, a 6%increase, resulting from a 5% decrease in operating expenses, partially mitigated by a 2% decrease in contribution margins.

Depreciation, Amortization and Impairment of Assets. The depreciation and amortization for 2017 reached Ps. 3,365 million. Considering the results from the mass market segment, depreciation and amortization totaled in Ps. 4,046 million, compared to Ps. 3,882 million in 2016. Pro forma, it increased Ps. 34 million or 1%, which corresponds mainly to an increase in depreciation and amortization for Ps. 76 million, mitigated by a decrease of Ps. 41 million in impairment of fixed assets.

Operating Income (Loss). For 2017, the Company recorded an operating income of Ps. 935 million. Considering the results from the mass market segment, operating income totaled Ps. 1,406 million in 2017, compared to an operating loss of Ps. 209 million for 2016. Pro forma, operating loss was Ps. 62 million in 2016, representing an increase of Ps. 1,468 million mainly due the non-recurring income from the Tower sale in 2017 and lower merger-related expenses.

Comprehensive Financial Result, net

The comprehensive financial cost reached Ps. 915 million in 2017, compared to a cost of Ps. 4,856 million in 2016 or Ps. 5,164 million in 2016 pro forma. The decrease is explained by an exchange rate gain during 2017 compared to a loss during 2016, as well as a lower interest expense in 2017 due to the premium paid during the first quarter of 2016 related to the prepayment of the Senior Notes.

Taxes

During 2017, income tax reached Ps. 288 million. Considering the results from the mass market segment, the income tax totaled Ps. 428 million, compared to a benefit of Ps. 1,472 million in the previous year. Pro forma, the income tax resulted a benefit of Ps. 1,541 million in 2016. This variation is due to a tax profit generated in the year 2017, derived mainly from a positive effect on the exchange rate, compared to a deferred tax benefit in 2016 derived from the tax loss generated in the year 2016, caused by a negative effect on the exchange rate and the financial expenses of the company.

Net Income (Loss)

The Company recorded a net income of Ps. 62 million in 2017, compared to a net loss of Ps. 3,599 million recorded in 2016 or a net loss of Ps. 3,691 million pro forma. The positive variation of Ps. 3,753 million from 2016 to 2017 is explained by the variations indicated above, mainly due to the other income / expenses and the exchange rate effect.

Capital Investments

For the twelve-month period ended December 31, 2017, capital investment totaled to Ps. 2,412 million. Considering the results from the mass market segment, capital investment amounted Ps. 2,954 million, compared to Ps. 3,186 million in 2016, a 7% decrease.

3.4.2) Financial Position as of December 31, 2018 and as of December 31, 2017.

Assets

As of December 31, 2018, total assets reached Ps. 28,156 million compared to Ps. 30,754 million as of December 31, 2017, a decrease of Ps. 2,598 million, or 8%.

Cash and cash equivalents. As of December 31, 2018, cash and cash equivalents totaled Ps. 2,249 million compared to Ps. 1,258 million as of December 31, 2017, a Ps. 991 increase or 79%. Cash at the 2018-year end includes Ps. 1,073 million that will be accrued during the first quarter of 2019 of the added-value tax and provisioned expenses related to the divestment of the FTTx business of the mass market segment.

Accounts Receivable. As of December 31, 2018, accounts receivable amounted to Ps. 2,660 million compared to Ps. 2,680 million as of December 31, 2017, a decrease of Ps. 20 million or 1%.

Property, systems and equipment, net. As of December 31, 2018, property, plant and equipment, net, totaled Ps. 16,106 million compared to Ps. 19,276 million as of December 31, 2017, a decrease of 16% derived mainly from the sale of the FTTx business from the mass market segment. Property, plant and equipment without deducting accumulated depreciation amounted to Ps. 63,272 million and Ps. 66,599 million as of December 31, 2018, and 2017, respectively.

Liabilities

As of December 31, 2018, total liabilities totaled Ps. 24,535 million compared to Ps. 28,261 million in 2017, a decrease of Ps. 3,726 million or 13%, mainly due to the pre-payment of a loan facility.

Accounts Payable and Accrued Expenses. As of December 31, 2018, accounts payable and accumulated liabilities amounted to Ps. 3,547 million compared to Ps. 3,881 million as of December 31, 2017, a decrease of Ps. 334 million, or 9%.

Debt. As of December 31, 2018, total debt including accrued interests decreased Ps. 4,782 million, composed of Ps. 4,755 million in debt reduction and a Ps. 27 million non-cash decrease derived from a 0.3% appreciation of the Mexican peso against the US Dollar, year-over-year. Debt reduction of Ps. 4,755 million is explained by (i) a Ps. 4,539 million decrease related to the prepayments of the Syndicated Bank Facility; (ii) a Ps. 299 million decrease in amortizations of a long-term facility; (iii) a Ps. 105 million increase in other loans and financial leases; and (iv) a Ps. 22 million decrease in accrued interests.

Stockholders' Equity

As of December 31, 2018, the Company's stockholders' equity totaled Ps. 3,621 million compared to Ps. 2,492 million as of December 31, 2017, an increase of Ps. 1,129 million or 45%, due to an increase in accumulated results. The capital stock totaled Ps. 464 million as of December 31, 2018, and 2017.

Cash flow

As of December 31, 2018, cash flow from operating activities reached Ps. 5,411 million, compared to a cash flow of Ps. 4,395 million as of December 31, 2017.

As of December 31, 2018, the Company had generated (used) cash flows from investment activities for Ps. 2,376 million, mainly related to the sale of the FTTx business from the mass market segment and in 2017 of Ps. (2,307) million. The previous amounts reflect investments in property, plant and equipment for the amounts of Ps. 1,870 million and Ps. 2,507 million as of December 31, 2018 and 2017, respectively. The figures exclude the Ps. 225 million and Ps. 840 million benefit related to the tower sale to American Tower Corporation for 2018 and 2017, respectively.

As of December 31, 2018, the cash flow (used in) generated by financing activities was Ps. (6,812) million derived mainly from the Ps. 4,350 pre-payment of the loan facility and in 2017 was Ps. (2,347) million.

As of December 31, 2018, the net debt to EBITDA ratio and the interest coverage ratio of the Company stood at 3.0x and 3.2x respectively, considering the pro-forma interests to the pre-payment of the bank loan facility. Also, as of December 31, 2017, the ratios of net debt to EBITDA and interest coverage both stood at 3.4x.

Financial Position as of December 31, 2017 and as of December 31, 2016.

Assets

As of December 31, 2017, total assets reached Ps. 30,754 million compared to Ps. 32,176 million as of December 31, 2016, a decrease of Ps. 1,422 million, or 4%.

Cash and cash equivalents. As of December 31, 2017, cash and cash equivalents totaled Ps. 1,258 million compared to Ps. 1,447 million as of December 31, 2016, a decrease of Ps. 189 million, or 13%.

Accounts Receivable. As of December 31, 2017, accounts receivable amounted to Ps. 2,680 million compared to Ps. 3,129 million as of December 31, 2016, a decline of Ps. 449 million or 14%.

Property, systems and equipment, net. As of December 31, 2017, property, plant and equipment, net, represented Ps. 19,276 million compared to Ps. 19,619 million as of December 31, 2016, a decrease of Ps. 344 million or 2%. Property, plant and equipment without deducting accumulated depreciation totaled Ps. 66,599 million and Ps. 63,634 million as of December 31, 2017, and 2016, respectively.

Liabilities

As of December 31, 2017, total liabilities amounted to Ps. 28,261 million compared to Ps. 29,775 million as of December 31, 2016, a decrease of Ps. 1,514 million or 5%, mainly due to the 5% appreciation of the peso which decreases the amount in pesos of the debt denominated in dollars and amortizations of debt.

Accounts Payable and Accrued Expenses. As of December 31, 2017, accounts payable and accumulated liabilities amounted to Ps. 3,881 million compared to Ps. 3,183 million as of December 31, 2016, an increase of Ps. 698 million, or 22%.

Debt. As of December 31, 2017, total debt including accrued interests decreased Ps. 1,092 million compared to 2016, mainly explained by (i) an increase of Ps. 10,332 million related to the 2024 Notes; (ii) a decline of Ps. 10,483 million in bank loans due to a partial prepayment of the syndicated loan; (iii) a decrease of Ps. 289 million in other loans and leases; (iv) an increase in accrued interest of Ps. 13 million; (v) a Ps. 17 million decline due to a higher amount in issuance cost in 2017; and (vi) an accounting decrease of Ps. 647 million caused by the appreciation of 5% of the Peso against the dollar.

Stockholders' Equity

As of December 31, 2017, the Company's stockholders' equity totaled Ps. 2,492 million compared to Ps. 2,400 million as of December 31, 2016, an increase of Ps. 92 million, or 4%. The capital stock was recorded at Ps. 464 million as of December 31, 2017, and Ps. 10,234 million as of December 31, 2016, a decrease of Ps. 9,769 due to the decision taken at the Extraordinary General Meeting held on March 10, 2017, to reduce the capital stock by Ps. 9,868 million, in order to partially absorb the negative balance of the account called "Earnings from Previous Years".

Cash flow

As of December 31, 2017, and 2016, cash flow from operating activities resulted in Ps. 4,395 million and Ps. 3,898 million, respectively.

At December 31, 2017, the cash flow (used in) generated by investment activities was Ps. (2,307) million, compared to Ps. (3,527) million in the same period of 2016. The amounts above reflect investments in property, plant and equipment for Ps. 2,954 million and Ps. 3,186 million as of December 31, 2017 and 2016, respectively.

As of December 31, 2017, the cash flow (used in) generated by financing activities was Ps. (2,347) million, compared to Ps. (1,675) million in 2016.

As of December 31, 2017, the net debt to EBITDA ratio and the interest coverage ratio of the Company both stood at 3.4x. Excluding merger expenses and profits derived from the towers sale, the net debt to EBITDA ratio and the interest coverage ratio of the Company were 3.6x and 3.2x, respectively. Likewise, as of December 31, 2016, the ratios of net debt to EBITDA and interest coverage were 4.6x and 2.1x, respectively. Excluding the expenses derived from the merger, the net debt to EBITDA and the interest coverage ratio of the Company were 3.8x and 2.5x, respectively.

Liquidity and Capital Resources applicable for years 2018, 2017 and 2016

The Company has relied mainly on financing from suppliers, capital contributions, cash from internal operations, funds obtained from issuing debt in international markets, bank loans and financial leases to finance the Company's operations, capital investments and working capital requirements.

At the end of 2015, Axtel issued Senior Secured Notes for US$544.7 million due January 31, 2020, Senior Unsecured Notes for US$50.4 million due February 1, 2017 and for US$101.7 million due September 22, 2019. Such Senior Notes could be redeemed on different periods and at the prices indicated in the following table:

	Redemption Price of Senior Notes		
Period	**Secured Notes due 2020 (as of January 31,)**	**Unsecured Notes due 2019 (As of Sept. 22,)**	**Unsecured Notes due 2017 (as of February 1,)**
2016	106.75%	101.50%	100.00%

2017	104.50%	100.00%	100.00%
2018	102.25%	100.00%	--
2019 and on	100.00%	100.00%	--

On January 15, 2016, the Company signed a contract for a syndicated loan used to redeem, on February 19, 2016, all such Secured and Unsecured Notes and to pay other short-term loans. The loan was divided into three portions: portion "A" in pesos (equivalent to US$250 million) with an amortization in month 36; Portion "B" in dollars (US$500 million) and in pesos (equivalent to US$85 million) with nine quarterly amortizations starting month 36.

On November 9, 2017, the Company 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 previously described, 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. Interests are payable monthly at TIIE91d + 1.875%. On August 31, 2018, the Company received debt funding of Ps. 300 million associated with this loan. The proceeds obtained from this loan were used mainly to pay Ps. 200 million of short term debt with BBVA Bancomer.

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.

Commitments regarding Capital Investments

At December 31, 2018, the Company did not have relevant capital investment commitments.

Non-registered Relevant Transactions

At December 31, 2018, 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. For further information, see section *2.13) Judicial, administrative and other legal proceedings.*

Financial Instruments

a) Financial Instruments per Category

The book values of financial instruments per category are as follows:

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

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

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

(thousands of pesos)	As of December 31, 2016		
	Accounts receivable and payable at amortized cost	Financial assets and liabilities at fair value with changes through profit or loss	Total categories
Financial assets:			
Cash and cash equivalents	$ 1,447,118	$ -	$ 1,447,118
Restricted cash	153,040	-	153,040
Trade and other accounts receivable	3,207,349	-	3,207,349
Financial instruments (zero strike call)	-	152,978	152,978
Non-current accounts receivable	8,642	-	8,642
Total financial assets	$ 4,816,149	$ 152,978	$ 4,969,127
Financial liabilities:			
Current debt	$ 1,028,588	$ -	$ 1,028,588
Trade payables, related parties and sundry creditors	4,286,158	246,396	4,532,554
Non-current debt	20,485,861	-	20,485,861
Other non-current accounts payable	985,975	-	985,975
Total financial liabilities	$26,786,582	$ 246,396	$27,032,978

b) Fair value of financial assets and liabilities

The amount of cash and cash equivalents, trade and other accounts receivable, other current assets, trade payables and other accounts payable, current debt, current provisions and other current liabilities approximate their fair value since their maturity date is less than twelve months. The net carrying amount of these accounts represents the expected cash flow at December 31, 2018, 2017 and 2016.

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

(thousands of pesos)	**Al 31 de diciembre de 2018**		**Al 31 de diciembre de 2017**		**Al 31 de diciembre de 2016**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial Liabilities						
Debt (*)	$14,974,979	$14,212,680	$19,775,122	$18,039,800	$21,162,446	$20,183,807
Long-term accounts payable to ALFA (**)	-	-	713,602	709,735	983,747	983,747

(*) The carrying amount of debt, for purposes of calculating its fair value, is presented gross of interest payable and issuance costs.
(**) In 2016, the fair value of the long-term account payable to ALFA approximates its carrying amount because of the term and interest rate conditions.

As of December 31, 2016, the fair value of non-current accounts receivable is $8,310 thousand compared to its carrying amount of $8,642 thousand. As of December 31, 2017, the Company has no financial assets valued at amortized cost.

The estimated fair values as of December 31, 2018, 2017 and 2016 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 placed 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

c) Financial instruments and derivative financial instruments

Financial Instruments

As of December 31, 2018, 2017 and 2016, 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 because 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 according to the following formula: *Number of options times the option right times the (reference price - exercise price).*

Where:

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

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

As of December 31, 2018, 2017 and 2016, the lending position of the options represents the maximum amount of its credit exposure, as showed below:

(thousands of pesos)

Counterparty	Notional amount	Agreement beginning date	Type of underlying asset	Fair value 2018	Fair value 2017	Fair value 2016
Bank of America Merrill Lynch	30,384,700	2010 & 2009	CPO's Axtel	90,243	114,854	106,954
Corporativo GBM, S.A.B. de C. V.	13,074,982	2015 & 2014	CPO's Axtel	38,832	49,424	46,024
Total				129,075	164,278	152,978

For the year ended December 31, 2018, the changes in fair value of the Zero Strike Calls gave rise to an unrealized loss of $35,202 (unrealized loss of $11,300 for the year ended December 31, 2017 and unrealized loss of $ 225,121 thousand for the year ended December 31, 2016), recognized in the consolidated statement of income within financial income and expenses.

Derivative financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

d) Hierarchy of fair value

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

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

The following table presents the Company's assets and liabilities that are measured at fair value as of December 31, 2018, 2017 and 2016:

(thousands of pesos)

	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

(thousands of pesos)

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

(thousands of pesos)

	As of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Zero Strike Calls	$ 152,978	$ -	$ -	$ 152,978
Financial liabilities:				
Financial liabilities because of merger	$ -	$ 246,396	$ -	$ 246,396

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.

Financial Risk Management

Financial risk factors

The Company's activities expose it to several financial risks; market risks (including the risk of variations in exchange rate, risk in variations in interest rate on cash flows and the risk of change in interest rate on fair values), credit risks and liquidity risk. The Company maintains a general risk management program that focuses on the unpredictability of financial markets and seeks to minimize the potential adverse effects of the Company's financial performance.

The objective of the risk management program is to protect the businesses' financial health against the volatility of exchange and interest rates. In the case of market risks, the Company uses derivative financial instruments to cover itself from certain risk exposures.

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$ millions)	
	Individual operations	**Accumulated annual operations**
CEO	1	5
ALFA's Risk Management Committee	30	100
Board of Finance Directors	100	300
ALFA Board of Directors	>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.

a) Market risk

i. Exchange rate risk

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

The Company's interest expense on the dollar debt, stated in pesos in Axtel's consolidated financial statements, varies with the movements in the exchange rate. Depreciation of the Peso results in increases in the interest expense recorded in Pesos.

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

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

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

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

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

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

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

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

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

b) 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, considering the financial position, past experience and other factors such as historical lows, net recoveries and an analysis of accounts receivable balances aging with reserves that are usually increased to the extent the accounts receivable increases in age. The credit risk concentration is moderate due to the number of unrelated clients.

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

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

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

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

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

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

Company A accounts for 1%, 1% and 5% of the Company's total accounts receivable as of December 31, 2018, 2017 and 2016, respectively. Additionally, revenues associated to Company A for the years ended December 31, 2018, 2017 and 2016, was 6%, 6% and 7%, respectively.

Company B accounts for 6%, 2% and 1% of the Company's total accounts receivable as of December 31, 2018, 2017 and 2016, respectively. Additionally, revenues related to Company B for the years ended December 31, 2018, 2017 and 2016, was 8%, 7% and 7%, respectively.

As of December 31, 2018, 2017 and 2016, the allowance for impairment totaled $2,172,343 thousand, $2,089,484 thousand and $1,920,753 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, considering 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.

c) 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.

(thousands of pesos)	Less than 1 year	Between 1 and 5 years	More than 5 years
December 31, 2018			
Current debt	$123,847		
Trade payable, related parties and creditors	7,938,944		
Derivative financial instruments	39,258		
Non-current debt	-	$2,275,469	$12,699,510
Finance leases	341,981	398,133	-
Non-accrued interest payable	1,222,225	4,410,428	1,629,496
December 31, 2017			
Current debt	$1,051,915		
Trade payable, related parties and creditors	6,373,957		
Non-current debt	-	$7,639,779	$11,292,596
Finance leases	327,019	309,493	-
Non-accrued interest payable	1,458,143	4,869,316	1,316,007
December 31, 2016			
Current debt	$1,719,992	-	
Suppliers, related parties and creditors	4,286,158	$1,120,762	
Non-current debt	-	20,504,754	$2,500,844
Financial leases	408,965	374,886	-

The Company expects to meet its obligations with the cash flows provided by operations and/or cash flows provided by its main shareholders.

Capital risk 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.

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 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) Controls and Procedures applicable to years 2018, 2017 and 2016

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 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) Estimates, Provisions and Critical Accounting Policies

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. 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.

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.

From March 1, 2016 until December 31, 2016, PricewaterhouseCoopers, S.C. served as the Company’s external auditor. From 1999 until February 29, 2016, KPMG Cárdenas Dosal, S.C. served as the Company's external auditor.

In the last three years the external auditors have not issued a negative opinion, nor have they abstained from expressing an opinion on the Audited Financial Statements.

Historically the Certified Public Accountants who, as partners of PricewaterhouseCoopers, S.C. for 2016 and Deloitte for 2017 and 2018, have signed the opinion issued by the external auditor are:

Years	Certified Public Accountant
2016	Ricardo Noriega Navarro
2017	Héctor García Garza
2018	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 2018 reached Ps. 5.0 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, 2018, 2017 and 2016, were the following:

			December 31, 2018				
(in thousand pesos)			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			

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

(in thousand pesos)	Accounts receivable	Accounts payable	December 31, 2016 Loans received from related parties Amount	Interest	Currency	Expiration date	Interest rate
Holding company [(2)]		$ 246,396			MXP	14/07/17	N/A
Holding company		-	$413,280	$12,605	USD	15/07/17	3%
Holding company [(1)]		287,300			MXP	28/02/18	TIIE + 2.25%
Holding company [(1)]		287,300			MXP	28/02/19	TIIE + 2.25%
Holding company [(1)]		204,574			MXP	28/02/18	TIIE + 2.25%
Holding company [(1)]		204,574			MXP	28/02/19	TIIE + 2.25%
Affiliates	$20,949	8,034	2,228	229	USD		LIBOR 3M + 2.75%
Total	$20,949	$1,238,178	$415,508	$12,834			

(1) Indemnification

(2) Merger-related financial liabilities

Transactions with related parties for the years ended December 31, 2018, 2017 and 2016, which were carried out in terms similar to those of arm's-length transactions with independent third parties, were as follows:

(in thousand pesos)	Year ended December 31, 2018 Income: Telecom Services	Costs and expenses: Interests	Others
Holding company	$ -	$ (136,976)	$ -
Affiliates	169,445	(281)	(35,695)
Total	$ 169,445	$ (137,257)	$ (35,695)

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

	Year ended December 31, 2016 Income: Telecommunication services	Costs and expenses: Interests	Administrative services	Others
Holding company	$ -	$ (10,093)	$ (2,317)	$ -
Affiliates	131,060	(1,498)	-	(31,287)
Total	$ 131,060	$ (11,591)	$ (2,317)	$(31,287)

Additionally, in 2016 the Company paid Ps. 809,793 thousand corresponding to obligations related to the non-competition agreement.

For the year ended December 31, 2018, compensation and benefits paid to the Company's main officers totaled $97,139 thousand ($112,048 thousand in 2017 and $245,506 thousand in 2016), 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 10 regular members and 3 alternate directors, since the date of the merger. Four board members are independent pursuant to Mexican Securities Market Law. The Audit and Corporate Practices Committee is currently comprised of three regular independent members and one alternate independent director.

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%
Sergio Rolando Zubirán Shetler	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	
Antonio De Nigris Sada	Executive Director Mass Market Segment	
Bernardo García Reynoso	Executive Director Planning and Development	
Carlos G. Buchanan Ortega	Executive Director Human Resources	
Raúl de Jesús Ortega Ibarra	Executive Director Legal and Regulatory	
Ricardo J. Hinojosa González	Executive Director Enterprise Segment	
Alejandro Miguel Elizondo Barragán(1)	Board member	
Eduardo Alberto Escalante Castillo	Board member	
Francisco Garza Egloff	Independent Board member	
Juan Ignacio Garza Herrera(A)	Independent Board member	
Armando Garza Sada(1)	Board member	
Fernando Ángel González Olivieri(1)	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(1)	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 declares 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 and CEO were appointed at the Annual General Shareholders Meeting held on February 26, 2019. Pursuant to the Company's bylaws and Mexican law, 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 Blvd. Díaz Ordaz km. 3.33 L-1, Col. Unidad San Pedro, San Pedro Garza García, N.L., México, 66215.

Álvaro Fernández Garza. Co-Chairman of the board of directors of Axtel since February 2016. CEO of ALFA, S.A.B. de C.V. He joined Alfa in 1991. Chairman of the board of Universidad de Monterrey (UDEM). Member of the boards of Citibanamex, Cydsa, Grupo Aeroportuario del Pacífico, Vitro and Museo de Arte Contemporáneo de Monterrey. He holds a degree in Economics from the University of Notre Dame, and MBA degrees from Instituto Tecnológico y de Estudios Superiores de Monterrey ("ITESM") and from Georgetown University.

Tomás Milmo Santos. Co-Chairman of the board of directors of Axtel since February 2016. Mr. Milmo Santos was Axtel's CEO from 1994 to February 2016, has been a board member since 1994 and was Chairman from 2003 to February 2016. He is a member of the board of CEMEX, ITESM and Promotora Ambiental. He is also Chairman of the board of Tec Salud and Alianza Educativa Ciudadana por Nuevo León. He holds a Bachelor's degree in Business Economics from Stanford University.

Sergio Rolando Zubirán Shetler. Chief Executive Officer since February 2016. CEO of Alestra from 1999 through February 2016. With more than 30 years of experience in the Latin American telecommunications market, he has held various executive positions in Mexico, Brazil and Argentina. He is an Industrial Engineer from the Universidad Nacional Autónoma de México, he holds a Master's of Science in Operations Research from the University of Southern California and a PhD in Philosophy, specialized in Management, by the Universidad Autónoma de Nuevo León.

Adrián Cuadros Gutiérrez. Executive Director Government Segment. Previously he held the position of Executive Director of IT Solutions. He worked for Alestra since 1996, where he was Director of Engineering, Chief Technology Officer, Director of Government Sales and Director of IT Sales. He also held several positions in AT&T México from July 1993 to January 1996. Mr. Cuadros holds a degree in Electronics and Communications Engineering and holds an MBA from ITESM. He completed an Executive Program at IPADE and Stanford University.

Adrián de los Santos Escobedo. Chief Financial Officer. Previously he served as Director of Corporate Finance and Investor Relations for Axtel until February 15, 2017 when he was appointed Acting Chief Financial Officer. Prior to joining Axtel in April 2006, he worked for Operadora de Bolsa and 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. Graduated in Business Administration from ITESM, with a Master's in Finance from the Carroll School of Management at Boston College.

Andrés Eduardo Cordovez Ferretto. Executive Director Infrastructure and Operations. Acted as Executive Director of Technology and Operations at Axtel from 2013 through January 2016. Before, he was Director of Information Technology and Processes. He has held various executive positions in diverse national and multinational telecommunications, financial and service companies, responsible of different functions such as technology, operations, customer service and sales. Mr. Cordovez holds a degree in Computer Systems Engineering from ITESM, and completed an Executive Program at IPADE; he has executive development courses at the Universities of Wharton, Stanford and London Business School.

Bernardo García Reynoso. Executive Director Planning and Development. Mr. García joined ALFA in 1985 and Alestra since its start in 1996 holding several positions, including Director of Sales, Director of Residential Business Unit, Director of Sales to Large Businesses and Affiliates, Director of Sales Management and Commercial Strategy, Director of Strategic Alliances, Sub-Director of Human Resource Planning, and Director of Management and Human Resources. Mr. García holds a Bachelor's Degree in Industrial and Systems Engineering from ITESM and an MBA from IMD Business School in Lausanne, Switzerland.

Carlos Guillermo Buchanan Ortega. Executive Director Human Capital. Previously acted as Co-Founder Director of B&S Consultores and as Director of Human Resources at Alestra. He has held the position of Director of Human Resources in Telefónica Movistar, Banca Comercial of Grupo Financiero Bancomer, Bimbo, Black & Decher and

Prolec G.E. He is Chairman of ERIAC Capital Humano and is counselor of the Universidad de Monterrey and Tec Milenio. He holds a Bachelor's degree in Psychology, a Master's in Organizational Development and Management from the UDEM, and completed a Senior Business Administration Program at IPADE and Kellogg University.

Raúl Ortega Ibarra. Executive Director Legal and Regulatory. Since 1996, he served as Director of Government Relations and Legal and Regulatory of Alestra; where he was also director of the International Business and Communications Unit between 2001 and 2007. He was previously Director of Regulatory Affairs at AT&T Corp. in Mexico and previously headed and founded the representative office of Mexican business organizations in Washington, D.C. Graduated from the Universidad Iberoamericana, with executive studies in Political Economy and Management from Stanford University.

Ricardo J. Hinojosa González. Executive Director Enterprise Segment. Mr. Hinojosa joined ALFA in 1988 and Alestra in 1997 where he acted as Commercial and Marketing Director and held several executive positions. Mr. Hinojosa holds a Bachelor's Degree from ITESM in Computer Science and an MBA with a specialization in Marketing from the University of California. Additionally, he completed Executive Programs at IPADE, Wharton University and Tuck.

Alejandro Miguel Elizondo Barragán. Axtel board member since February 2016. Mr. Elizondo was the Director of Business Development of ALFA until March 2019. Board member of Arca Continental. Undergraduate degree in Mechanical and Electrical Engineering from ITESM and holds an MBA from Harvard Business School.

Eduardo Alberto Escalante Castillo. Axtel board member since February 2019. Chief Financial Officer of ALFA since 2018. Former Chief Financial Officer of Alpek, President of the Caprolactam Division of Alpek and President of AOL Mexico. Currently Chairman of the Mexican Chemical Industry Association (ANIQ). Undergraduate degree in Engineering from ITESM. Master's degree in Engineering from Stanford University.

Francisco Garza Egloff. Axtel board member since February 2016. President of Proval Consultores. Board member for Arca Continental, Grupo Industrial Saltillo, Grupo AlEn, Banco Banregio, as well as the Engineering and Architecture Division at ITESM and Fundación UANL. Undergraduate degree in Chemical Engineering from ITESM and completed an Executive Program at IPADE.

Juan Ignacio Garza Herrera. Axtel board member since February 2016. CEO of Xignux. He has participated as board member for Xignux, BBVA Bancomer (Northeast region), Consejo Mexicano de Hombres de Negocios (CMHN), UDEM, ICONN, Cleber and Instituto Nuevo Amanecer. President of the *Cámara de la Industria de Transformación de Nuevo León*. Undergraduate degree in Mechanical Engineering from ITESM and an MBA from the University of San Francisco.

Armando Garza Sada. Axtel board member since February 2016. Chairman of the board of directors of ALFA. Chairman of the boards of Alpek and Nemak. Board member of BBVA Bancomer, CEMEX, FEMSA, Grupo Lamosa, Liverpool, Proeza and ITESM. Undergraduate degree from Massachusetts Institute of Technology and an MBA from Stanford University.

Fernando Ángel González Olivieri. Axtel board member since February 2016. Chief Executive Officer of CEMEX. Undergraduate degree in Business Administration and an MBA from ITESM.

Patricio Jiménez Barrera. Axtel board member since February 2018. Board member of Sociedad Financiera de Crédito Popular Nacional and Operadora de Servicios Mega. Mr. Jiménez is a CPA and holds a degree from ITESM.

Enrique Meyer Guzmán. Axtel board member since February 2016. CEO and Chairman of Grupo CEMIX. Board member for UDEM, BBVA Bancomer, Citibanamex, Vinoteca, Silica Desarrollo, Fondo Emblem, Neoalimentos, Beliveo and Chairman of Club Industrial. Undergraduate degree in Industrial and Systems Engineering from ITESM, and an MBA from Stanford University.

Ricardo Saldívar Escajadillo. Axtel board member since February 2016. Private investor. Board member of FEMSA and ITESM. He was President and CEO of The Home Depot México for 18 years until June 2017, when he retired.

Previously he worked for ALFA for 20 years. Undergraduate degree in Mechanical and Industrial Engineering from ITESM and a Master of Science degree in Systems Engineering from Georgia Tech and completed an Executive Program at IPADE.

Alberto Santos Boesch. Axtel board member since February 2016. Chairman and CEO of Ingenios Santos, S.A. de C.V. Board member of GRUMA, BBVA Bancomer, Interpuerto de Monterrey, Comité de 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 Pública of UANL and Unidos por el Arte contra el Cáncer Infantil (UNAC). Undegraduate degree in International Studies from UDEM.

José Antonio González Flores. Alternate board member of Axtel since February 2016. Chief Financial Officer of CEMEX. Undergraduate degree in Industrial Engineering from ITESM and an MBA from Stanford University.

Thomas Lorenzo Milmo Zambrano. Alternate board member of Axtel since February 2018. He was co-founder and Chairman of Javer and Incasa Group; former Chairman and CEO of Carbonífera San Patricio and Carbón Industrial, as well as board member of CEMEX until 1996.

Paulino José Rodríguez Mendívil. Alternate board member of Axtel since February 2019, and previously was board member of Axtel since February 2016. Director of Human Capital of ALFA. Board member of Campofrío Food Group, COPARMEX and Consejo Coordinador Empresarial. Undergraduate degree in Industrial Systems Engineering and Master's in Energy Technology from the University of País Vasco, Spain.

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 Axtel and Alestra 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 an agreement between shareholders 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 agreement between shareholders 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 (the "Shareholder Agreement"). In order to implement the agreements established in the Agreement between Shareholders, 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 70% of the total shares of Axtel.

It is not known to the Issuer 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 of 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 Chairman of the Board of Directors has 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 strategy of the Company;
- Approve, subject to prior review of the audit 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;
- The appointment and dismissal of the CEO of the Company, and its integral compensation, and policies for the appointment of other key officers;
- The financial statements, accounting policies and guidelines on internal control of the Company;
- The 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, Juan Ignacio Garza Herrera 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 of February 26, 2019.

Compensation

During the year concluded on December 31, 2018, each board members received as net emolument 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, 2018, compensation and benefits paid to the Company's main officers totaled Ps. 97 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. 94 million. On the other hand, there is no agreement of program to involve board members, executives and other employees in Axtel’s capital stock.

Description of the Personal Inclusion Policy or Program

The Issuer 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 beliefs.

4.4) Company’s Bylaws and Other Agreements

Modifications in the bylaws

The Company was incorporated under the corporate name of Telefonía Inalámbrica del Norte, S.A. de C.V. on July 22, 1994. Subsequently, through the Extraordinary General Shareholders’ Meeting held on January 28, 1999, the Company changed its corporate name to Axtel, S.A. de C.V., and through the Extraordinary General Shareholders’ Meeting on November 11, 2005, the Company resolved, among others, to carry a public and private share offering and, as a result, the Company’s bylaws were reformed in full.

On November 29, 2006, in the General Ordinary and Extraordinary Shareholders’ Meeting, the corporate bylaws were reformed in full, including the adoption of the stock exchange regime in accordance with the applicable legal provisions.

On August 31, 2007, an Extraordinary General Shareholders Meeting was carried out where, among other things, the following resolutions were adopted: (i) to carry out a split of the shares that were outstanding, by means of the issuance and delivery to the shareholders of three new shares for each of the shares of the same class and series that they owned; (ii) and to amend the Sixth Clause of the bylaws of the Company.

Additionally, in accordance with the resolutions adopted by the Extraordinary Shareholders’ Meeting held on January 25, 2013, the Company issued 972,814,143 Series “B” Class “I” shares which were held in the treasury of the Company, 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.

Afterwards, on July 21, 2016, the shareholders of the Company resolved, among other matters, to rectify the number of outstanding shares and shares in the Company’s treasury previously approved by the Extraordinary General Shareholder Meeting held on January 15, 2016, at which among others, the merger between Axtel, as a merging company, and Onexa, as a 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, representing the fixed part of Axtel's capital stock, neither subscribed nor paid, which had been deposited in the treasury of the Company, intended to support the conversions of the convertible Notes, whose owners did not exercise their respective conversion rights; as a consequence, 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 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 the Series "A" shares which were outstanding, representing the capital stock of the Company, into Series "B", of the same characteristics.

On March 10, 2017, by means of an Extraordinary General Shareholder 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, in order to partially absorb the negative balance of the account called "Cumulative losses", having previously applied to that account the balance as of December 31, 2016 of the account "Additional paid-in capital".

Lastly, on February 27, 2018, by means of the Extraordinary General Shareholders' Meeting, the shareholders resolved to amend Clause Six of the bylaws of the Company, for the sole purpose of adjusting the wording to reflect that all the shares previously held were in the treasury of the Company are now fully subscribed, paid and released, this in accordance with the resolutions adopted at the Extraordinary General Shareholders' Meeting of the Company held on January 15, 2016 related to the merger between Axtel and Alestra. On July 18, 2017, ALFA received 1,019,287,950 Class "I" Series "B" shares, equivalent to an increase of 2.50% of ALFA's ownership percentage in Axtel, held in the Company's treasury and were released on that date, as part of the consideration agreed in the merger agreement and approved in the aforementioned Shareholders' Meeting.

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 will be Ps. 150 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.

Shareholders Meetings and Voting Rights

The general shareholders meetings may be ordinary or extraordinary. At each general shareholder meeting every shareholder shall be entitled to one vote per share.

The extraordinary general shareholders meetings shall be those convened to decide on the following issues:

- Extending the term of the Company or early dissolution;
- Increases or reductions to the fixed part of the capital stock;
- Amendment to the Company's purpose and changes of nationality;
- Mergers or transformations;
- Issuance of bonds and preferred stock;
- Any amendment to the bylaws;
- Spin offs;
- Cancellation of shares by 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 meeting of shareholders shall meet at least once a year within the first four months after the end of the fiscal year, to address, among other things, the following:

- Discussion and approval of the reports of the Board of Directors and the General Director referred by LMV and discussion about the use of the results of the immediately preceding year.

- Appointment of members of the Board of Directors and the Audit and Corporate Practices Committee, and any other committee that is created, as well as the determination of their compensation;
- Determine the maximum amount that may be used to repurchase shares, and
- Discussion and approval of the annual report made 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 deal, in addition to the matters described above, to approve any operation involving 20% or more of the consolidated assets of the Company within one year.

To attend the shareholders meeting, holders of shares must be registered in the Company's stock registration book or provide sufficient proof of the ownership of their stocks.

For an ordinary shareholders' meeting to be legally gathered by virtue of a first call, at least half the Company's capital must be represented, and its resolutions will be valid when taken by a majority vote of the shares entitled to vote represented in the meeting. In the case of second or subsequent call, annual shareholder meetings may be held valid irrespective of the number of shares represented and its resolutions shall be valid when taken by a majority vote of the shares entitled to vote represented in the meeting. For an extraordinary shareholders meeting to be legally under the first call, there must be represented at least three-quarters of the capital stock, and its resolutions will be valid when taken by the affirmative vote of at least more than half of the stock with voting rights. In case of second or subsequent call, the extraordinary shareholders' meetings may be held valid if they are represented at least fifty-one percent of the Company's stock, and its resolutions shall be valid if taken by the affirmative vote of at least half of such 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 entitled to vote, including limited or restricted vote, that individually or jointly hold at least 10% of the Company's stock shall be entitled to request from the Chairman of the Board of Directors or the Chairmen of the committees that carry out the functions of audit and corporate practices, to gather the general meeting of shareholders 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 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 from the date of the request, a Civil Judge or District of domicile of the Company, will, at the request of any interested shareholder who must prove ownership of shares for this purpose issue such notice. Notices for ordinary, extraordinary, general or special meetings, ought to be published in the electronic system established by the Secretary of Economics and, in the case such system is not working, in any of the major newspapers of the Company's domicile, at least 15 (fifteen) calendar days in advance to the date set for the meeting (the day in which the publication of the call is made, will be computed within the 15 (fifteen) 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 Examiners, in which the date of issuance of the paper on which such call for shareholders meeting was published must be mentioned. 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. Calls to express the place, date and time that the Meeting should be held, shall contain the agenda which may not include matters under the rubric of general affairs 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 in which a shareholders' meeting shall be hold, 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 offices of the Company, free of charge. In accordance with the second paragraph of Article 178 of the General Corporations Law, decisions taken outside the shareholders meeting, by the unanimous vote of the shareholders representing all of the shares entitled to vote, or in the case of a special meeting, the holders of such special series of actions involved, 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 Stock Record, 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, in which case, the content of the LMV shall be applied.

The records 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 appointed examiners.

Dividend Payment and Settlement

Prior to the payment of any dividend, the Company shall relegate 5% of their 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 case of liquidation, all shares fully subscribed and paid shall be entitled to receive its proportionate share 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 hold a majority of share of the Company. Under the LMV this restriction does not apply to the acquisition of shares representing the Company's capital, through mutual funds.

Foreign Investors Vote CPO holders

On March 26, 2018, the signing of a Modification Agreement of the Irrevocable Trust Agreement No. 80471 called Axtel CPO's was signed, in order to modify, 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, Institution for the Deposit of Securities, S.A. of C.V. effected on July 31, 2018.

Measures to prevent the change of control in Axtel

General

The Company's bylaws provide, subject to certain exceptions, that: (i) Any person who individually, or together 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 stock holdings as an individual and / or in conjunction with the Related Party(ies) represent a participation of 5% (five percent) or more of all Shares Series "B", shall require prior written consent of the Board of Directors and / or the Shareholders meeting, likewise, (B) any person who individually or together with one or more Related Parties, which holds 5% (five percent) or more of the 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 in conjunction with the Related Party(ies) represent a participation of 15% (fifteen percent) or more of all Series "B" Shares, as applicable, shall require prior written consent of the Board of Directors and / or the shareholders meeting as provided below (C) any person who individually or together with one or more Related Parties, which maintain a 15% (fifteen percent) 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 shares holding as an individual and / or in conjunction with the Related Party(ies) represent a participation of 25% (twenty percent) or more of all Series "B" Shares, as applicable, shall require prior written consent of the Board of Directors and / or the Shareholders Meeting, as provided below; (D) any person who individually or together with one or more Related Parties, which maintaining a 25% (twenty percent) 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 in conjunction with the Related Party(ies) represent 35% (thirty five percent) or more, of all Series "B" Shares, as applicable, shall require prior written consent of the Board of Directors and / or the Shareholders Meeting, as provided below, (E) any person who individually or in combination with one or more Related Parties, which maintained a 35% (thirty five percent) 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% (forty-five percent) or more of all Series "B" Shares, as applicable, shall require prior permission in writing by 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, which 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 in conjunction with the Related Party(ies) represent 3% (three percent) or more of all Series "B" Shares, as applicable, or multiples thereof, shall require prior written consent of the Board of Directors and / or the Shareholders Meeting, as applicable.

The person that acquired shares without having met any of the procedures, requirements, authorizations and other provisions stated in the bylaws, shall not be inscribed in the shares registry of the Company, and accordingly, such person may not 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 otherwise allows. For 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 otherwise allows. In cases in which the procedures, requirements, authorizations and other provisions stated in the bylaws, the certificates. or the 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 registration of shares of the Company shall be deemed as proved, nor the 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 otherwise allows. Additionally, and in accordance with Article 2117 of the Federal Civil Code, any person who acquires shares in contravention of the provisions of the 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 contravention of the provisions of the bylaws, 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 contravention 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 sale, including delivery to the Board of Directors of the Company, through its President and Secretary, of the information referred to in the bylaws.

Requirements and Approvals from the Board of Directors and Shareholders Meeting

To obtain the prior consent of the Board of Directors, the potential purchaser must submit an application for authorization, which should contain some specific information. During the authorization process, certain terms must be met. The Board of Directors may, without liability, submit the application for approval to the general extraordinary shareholders meeting for resolution. The determination of the Board of Directors to submit for the consideration of the Shareholders Meeting should consider various factors such as the potential conflict of interest, equity in the proposed price or when the Council is not capable of meeting having been convened more than two times, among other factors. The Board of Directors may reject any authorization previously granted before the date on which the transaction is concluded, in the event that the Board receives a better offer for the shareholders of the Company. If the Board of Directors or the Shareholders Meeting does not resolve, in a negative or positive way, on the term and form prescribed by Axtel's bylaws, it is understood that the request for authorization to acquire shares in question has been rejected.

Mandatory Public Offer to Purchase in Certain Acquisitions

In the case that the Board of Directors authorizes the requested acquisition of Shares, and such acquisition implies an acquisition of a participation of between 20% or 40% in the Company, or when such acquisition implies a Change of Control in the Company, and notwithstanding the approval, the person that intends to acquire such Shares must do a public offer to purchase, in cash, and a for a price determined in accordance with the procedure mentioned in the following paragraph, of an additional 10% (ten percent) of the Company's stock with voting rights, without such acquisition, including the additional, exceeds half of the ordinary shares with voting rights or imply a change of Control in the Company.

In the case that the Board of Directors or the General Extraordinary Shareholder Meeting, as applicable, approves an acquisition that may result in a change of control, the purchaser must do a public offer to purchase 100% (one hundred percent) minus one, of the existing Shares of the Company, at a price in cash that shall not be under the highest of 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 listed shares during the three hundred sixty-five (365) days prior to the date of the authorization granted by the Board of Directors; **c)** the highest price paid in the purchase of Shares at any time by the person who individually or jointly, directly or indirectly, acquire Shares subject to the application authorized by the Board of Directors; or **d)** the highest enterprise value multiple of the Company for the last 36 months, multiplied by the operating cash flow or EBITDA (operating income before depreciation, interest and taxes) known for the last 12 months minus the net debt known more recently. The enterprise value multiple referred to above, is the market value of the Company (the share or regular participation certificate or CPO closing price multiplied by the total number of shares or CPOs outstanding representative of 100% of the share capital of the Company) plus net debt known at that time, divided between the operating cash flow or EBITDA known for the past 12 months.

Any public offer to purchase that must be conducted in connection therewith, shall be subject to certain specific requirements. All shareholders of the Company's shares must receive 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 public offer to purchase in the case of certain acquisitions differ from the requirements contained in the LMV, this under the understanding that the provisions of the bylaws give greater protection to minority shareholders than those provided by law. In these cases, the provisions contained in the bylaws, and relevant provisions of the LMV, apply to the acquisitions specified hereby.

Exceptions

The provisions of the Company's bylaws summarized above, do not apply to purchases or transfers of Shares to be made via inheritance or from an estate by means of a testamentary succession, those acquired by the person or persons 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 on protection against hostile takeover must be made in accordance with the terms contained in the LMV and registered in the Public Registry of Commerce from the Company's domicile.

Other provisions

Appraisal Rights and Other Minority Rights

If shareholders agree to modify the Company's 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 made within 15 days following the day in which such amendments were adopted.

Under the LMV, issuers are required to comply with certain minority rights, including rights that allow:

- shareholders representing at least 10% of the duly subscribed and paid 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 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, 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 directors of the Company under Mexican law are different from those given by law in the United States and other countries. Mexican courts have not deeply addressed the issues of responsibilities of board members, unlike the courts of different states of the United States, where court decisions in this area have identified some of the rights attributable to minority shareholders. Mexican procedural law does not contemplate the possibility of class actions and shareholder lawsuits, which allow U.S. shareholders to include in their demands to other shareholders or to exercise rights attributable to the Company. Mexican company's stockholders do not have the power to oppose resolutions adopted at shareholders' meetings unless they comply with strict procedural requirements. As a result of the foregoing, it is usually more complicated for the minority shareholders of Mexican corporations to bring lawsuits against the Company or its board members, in comparison with the shareholders of U.S. companies.

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, and may also be accountable for the payment of direct and consequential 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 entitled to vote, including limited or restricted vote, that individually or jointly hold 20% (twenty percent) or more of the Company's capital stock, may judicially oppose the resolutions of 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 in said article, and Article 202 of such law being equally applicable.

Admission of Foreigners

In accordance with applicable law, the Company's bylaws state that when purchasing Company's stock, foreign shareholders are compelled 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 seeks 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 proceedings in 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 his vote in the same sense 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 21% 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 by ALFA and said 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 that represent 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 with Alestra, 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) in each of the said periods. Prices are expressed in constant pesos.

	Maximum	Minimum	Volume
	(Pesos per CPO)		(in thousands)
Annual Maximum and Minimum:			
2014	5.43	3.18	837,644
2015	8.96	3.14	873,950
2016	8.77	3.45	745,863
2017	4.88	3.30	442,453
2018	4.89	2.91	368,345
2017:			
First Quarter	4.02	3.30	113,865
Second Quarter	4.30	3.36	171,209
Third Quarter	4.60	3.73	73,636
Fourth Quarter	4.88	3.66	83,743
2018:			
First Quarter	4.89	3.66	109,489
Second Quarter	4.69	3.85	118,983
Third Quarter	4.15	3.52	51,394
Fourth Quarter	3.83	2.91	88,586
Monthly Maximum and Minimums			
2018:			
January	4.76	3.66	43,018
February	4.89	4.39	50,623
March	4.30	4.09	15,848
April	4.69	3.97	40,478
May	4.45	4.13	47,331
June	4.25	3.85	31,173
July	4.15	3.83	22,423
August	3.96	3.75	15,945
September	3.85	3.52	13,026
October	3.83	3.10	19,979
November	3.50	2.91	39,212
December	3.30	2.96	29,396
2019:			
January	3.05	2.93	36,370
February	2.97	2.64	25,055
March	2.85	2.27	45,164

5.3) Market Maker

As of December 31, 2018, Axtel has not entered into a Market Maker contract with any intermediary. However, until June 16, 2016, *Acciones y Valores Banamex, S.A. de C.V.*, acted as its market maker:

1. Type of Security: Ordinary Participation Certificates.
2. Ticker: Axtel CPO.
3. ISIN Code: MX01AX040009

The contracted services were aimed at increasing the liquidity of the issuer, as well as maintaining stability and continuity in prices. The contract was signed on November 8, 2010, lasted six months from its execution and it could be renewed for equal periods, unless the parties wished to terminate with 30 days' notice.

In consideration for services rendered under this contract, the Market Maker received from the Issuer the amount of Ps. 20,000.00 (Twenty thousand pesos 00/100 National Currency) plus Value Added Tax, VAT, per month.

The contract was terminated on June 16, 2016.

De conformidad con el Artículo 33 fracción I, inciso b), párrafo 1 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 respectivas actualizaciones, y con relación al Reporte Anual 2018 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 la emisora contenida en el presente reporte anual, 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 este reporte anual o que el mismo contenga información que pudiera inducir a error a los inversionistas."

Atentamente,

Ing. Sergio Rolando Zubirán Shetler

Director General

Ing. Adrián Gerardo de los Santos Escobedo

Director de Finanzas

Lic. Carlos Jiménez Barrera

Director Jurídico

EXHIBIT A

LETTERS OF EXTERNAL AUDITORS

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Ruiz Urquiza, S.C.
Av. Juárez 1102, piso 40
Centro
64000 Monterrey, N.L.
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Al Consejo de Administración de Axtel, S. A. B. de C. V.
Blvd. Gustavo Díaz Ordaz Km. 3.33 L-1
Col. Unidad San Pedro
San Pedro Garza García, N.L.
C.P. 66215, México

Estimados Señores:

Los suscritos manifestamos, bajo protesta de decir verdad, que los estados financieros consolidados de Axtel, S. A. B. de C. V. y subsidiarias al 31 de diciembre de 2018 y 2017 y por los años que terminaron en esas fechas, contenidos en el presente reporte anual, fueron dictaminados con fecha 31 de enero de 2019, 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,

C. P. C. Gabriel González Martínez
Representante Legal
Socio de Galaz, Yamazaki, Ruiz Urquiza, S. C.
Miembro de Deloitte Touche Tohmatsu Limited

C. P. C. Héctor García Garza
Auditor Externo
Socio de Galaz, Yamazaki, Ruiz Urquiza, S. C.
Miembro de Deloitte Touche Tohmatsu Limited

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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 2018

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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 (la "Comisión") 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 auditor externo de los estados financieros consolidados por el año que terminó el 31 de diciembre de 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. Manifiesto que la información financiera comprendida en el reporte anual coincide con la información financiera auditada.

Atentamente

C. P. C. Héctor García Garza

29 de abril de 2019

* * * * *

Deloitte se refiere a Deloitte Touche Tohmatsu Limited, sociedad privada de responsabilidad limitada en el Reino Unido, y a su red de firmas miembro, cada una de ellas como una entidad legal única e independiente. Conozca en www.deloitte.com/mx/conozcanos la descripción detallada de la estructura legal de Deloitte Touche Tohmatsu Limited y sus firmas miembro.

Los suscritos manifestamos bajo protesta de decir verdad, que los estados financieros consolidados adjuntos de Axtel, S. A. B. de C. V. y subsidiarias, al 31 de diciembre de 2016, que contiene el presente Reporte Anual, fueron dictaminados con fecha 21 de febrero de 2017; de conformidad con las Normas Internacionales de Auditoría.

Asimismo, manifestamos que hemos leído el presente reporte anual y basados en nuestra lectura y dentro del alcance del trabajo de auditoría realizado, no tenemos conocimiento de errores relevantes o inconsistencias en la información financiera que se incluye y cuya fuente proviene de los estados financieros dictaminados señalados en el párrafo anterior, ni de información financiera que haya sido omitida o falseada en este reporte anual, o que el mismo contenga información financiera que pudiera inducir a error a los inversionistas.

No obstante, los suscritos no fuimos contratados, y no realizamos procedimientos adicionales con el objeto de expresar nuestra opinión respecto de la otra información, contenida en el presente reporte anual, que no provenga de los estados financieros por nosotros dictaminados.

C.P.C. Ricardo Noriega Navarro
Socio de Auditoría

C.P.C. Felipe Córdova Otero
Representante Legal

Sr. Ing. Bernardo Guerra Treviño
Presidente del Comité de Auditoría
Axtel, S. A. B. de C. V.
Blvd. Díaz Ordaz Km. 3.33 L-1
Col. Unidad San Pedro
66215 San Pedro Garza García, Nuevo León

Monterrey, N. L., 29 de abril de 2019

Estimado señor Treviño:

Respecto a los estados financieros consolidados de Axtel, S. A. B. de C. V. y subsidiarias (la "Emisora") correspondientes al año que terminó el 31 de diciembre de 2016 y en cumplimiento con Disposiciones de Carácter General Aplicables a las Entidades y Emisoras Supervisadas por la Comisión Nacional Bancaria y de Valores que contraten Servicios de Auditoría Externa de Estados Financieros Básicos (Disposiciones), emitidas el 26 de abril de 2018, manifiesto mi consentimiento para que la Emisora incluya en la información anual a que hace referencia el artículo 33, fracción I, inciso b), numeral 1, de las Disposiciones de Carácter General Aplicables a las Emisoras de Valores y a Otros Participantes del Mercado de Valores, el informe sobre los estados financieros al 31 de diciembre de 2016, que al efecto se emitió.

Lo anterior, en el entendido de que previamente me cercioré de que la información financiera contenida en los estados financieros básicos incluidos en el Reporte Anual de que se trate, así como cualquier otra información financiera incluida en dicho documento cuya fuente provenga de los mencionados estados financieros básicos o del dictamen que al efecto se auditó, coincide con la dictaminada, con el fin de que dicha información sea hecha del conocimiento público.

Atentamente,

C. P. C. Ricardo Noriega Navarro
Socio de Auditoría

cc. Sr. Ing. Enrique Meyer Guzmán/ Presidente del Consejo de Administración de Axtel, S. A. B. de C. V.
Sr. Lic. Álvaro Fernández Garza /Director General de Alfa, S. A. B. de C. V.
Sr. Ing. Rolando Zubirán Shetler / Director General de Axtel, S. A. B. de C. V.
Sr. Lic. Adrián de los Santos Escobedo / Director de Finanzas Corporativa de Axtel, S. A. B. de C. V.
Sr. Ing. Eduardo Alberto Escalante Castillo / Director de Finanzas de Alfa, S. A. B. de C. V.
Sr. C. P. Juan Manuel Gallardo Olivares / Director de Contraloría Corporativa de Alfa, S. A. B. de C. V.

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, 2018 and 2017, and Independent Auditors' Report Dated January 31, 2019

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

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

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

Opinion

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

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

Basis for opinion

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

Key audit matters

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

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Assessment of impairment of long-lived assets and goodwill

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

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

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

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

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

Assessment of the recoverability of deferred income tax assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

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

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

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

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

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

Consolidated Statements of Financial Position

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

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

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

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

Consolidated Statements of Income

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

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

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

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

Consolidated Statements of Comprehensive Income

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

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

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

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

Consolidated Statements of Changes in Shareholders' Equity

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

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

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

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

Consolidated Statements of Cash Flows

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

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

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

1. General information

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

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

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

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

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

2. Relevant events

2018

a. Sale of massive segment

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

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

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

b. Sale of towers with American Tower Corp.

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

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

c. Debt proceeds from Export Development Canada

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

d. Debt restructuring

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

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

2017

a. Issuance and prepayment of debt

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

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

b. Shareholding in ALTÁN

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

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

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

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

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

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

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

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

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

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

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

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

f. ***Loss absorption***

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

3. Summary of significant accounting policies

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

a. ***Basis of preparation***

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

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

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

b. ***Changes in accounting policies and disclosures***

i. New standards and changes adopted by the Company

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

IFRS 9, Financial Instruments

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

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

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

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

IFRS 15, Revenues from Contracts with Customers

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

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

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

IFRIC 22, Interpretation on Foreign Currency Transactions and Advance Consideration

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

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

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

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

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

IFRS 16, *Leases*

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

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

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

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

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

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

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

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

IFRIC 23, *Uncertainty over Income Tax Treatments*

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

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

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

c. ***Consolidation***

i. Subsidiaries

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

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

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

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

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

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

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

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

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

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

(1) Provider of administrative services.

(2) Leasing of telecommunications and infrastructure equipment.

(3) Provider of telecommunication services.

(4) Company with no primary operations.

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

ii. Absorption (dilution) of control in subsidiaries

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

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

iii. Sale or disposal of subsidiaries

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

iv. Associates

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

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

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

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

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

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

d. ***Foreign currency translation***

i. Functional and presentation currency

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

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

ii. Transactions and balances

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

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

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

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

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

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

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

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

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

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

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

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

f. ***Restricted cash***

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

g. ***Financial instruments***

Financial assets

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

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

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

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

i. Financial assets at fair value through profit or loss

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

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

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

ii. Loans and accounts receivable

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

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

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

iii. Investments held to maturity

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

iv. Investments available for sale

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

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

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

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

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

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

v. Financial assets at amortized cost

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

vi. Financial assets at fair value through other comprehensive income

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

vii. Financial assets at fair value through profit or loss

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

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

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

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

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

Impairment of financial assets

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

New impairment policy from the adoption of IFRS 9

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

a. Trade accounts receivables

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

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

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

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

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

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

b. Other financial instruments

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

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

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

Financial liabilities

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial assets and liabilities

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

h. Derivative financial instruments and hedging activities

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

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

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

Fair value hedges

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

Cash flow hedges

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

Suspension of hedge accounting

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

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

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

i. ***Inventories***

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

j. ***Prepayments***

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

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

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

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

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

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

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

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

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

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

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

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

l. Leases

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

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

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

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

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

m. Intangible assets

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

Intangible assets are classified as follows:

i. Finite useful life

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

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

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

a. Trademarks

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

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

b. Licenses

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

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

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

ii. Indefinite useful life

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

n. Goodwill

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

o. Impairment of non-financial assets

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

p. Income tax

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

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

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

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

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

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

q. Employee benefits

i. Pension plans

Defined contribution plans:

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

Defined benefit plans:

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

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

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

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

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

ii. Post-employment medical benefits

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

iii. Termination benefits

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

iv. Short-term benefits

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

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

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

r. Provisions

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

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

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

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

s. Share-based payments

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

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

t. Capital stock

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

u. Comprehensive income

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

v. Segment reporting

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

w. Revenue recognition

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

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

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

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

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

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

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

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

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

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

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

x. Advances from customers

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

y. Earnings per share

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

4. Financial instruments and financial risk management

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

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

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

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

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

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

Capital management

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

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

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

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

Financial instruments per category

Below are the Company's financial instruments by category:

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

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

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

Fair value of financial assets and liabilities valued at amortized cost

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

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

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

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

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

Market risk

(i). Exchange rate risk

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

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

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

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

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

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

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

Financial instruments and derivative financial instruments

Financial instruments

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

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

Where:

Number of options = defined in the contract

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

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

Exercise price = 0.000001 pesos

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

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

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

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

Derivative financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

Interest rate and cash flow risk

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

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

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

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

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

Credit risk

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

Account receivables

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

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

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

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

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

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

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

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

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

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

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

Investments

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

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

Liquidity risk

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

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

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

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

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

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

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

Fair value hierarchy

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

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

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

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

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

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

The specific valuation techniques used to value financial instruments include:

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

5. Critical accounting estimates and significant judgments

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

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

a. *Long-lived assets*

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

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

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

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

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

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

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

d. ***Commitments and contingencies***

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

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

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

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

6. **Cash and cash equivalents**

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

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

7. **Restricted cash**

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

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

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

8. **Trade and other accounts receivable, net**

Trade and other accounts receivable are comprised as follows:

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

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

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

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

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

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

9. **Inventories**

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

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

10. Property, plant and equipment

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

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

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

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

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

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

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

11. Goodwill and intangible assets

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

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

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

Company concessions

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

The Company's principal concessions are as follows:

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

(1) Concessions granted to Avantel.

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

Concessions in renovation process:

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

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

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

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

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

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

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

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

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

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

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

Impairment testing of goodwill

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

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

Impairment sensitivity analysis for goodwill and intangibles

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

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

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

12. Other non-current assets

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

13. Trade and other accounts payable

Trade and other accounts payable are analyzed as follows:

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

14. Provisions

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

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

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

15. Deferred income

Deferred income movements during the year are shown as follows:

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

16. Debt

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

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

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

(3) Non-bank borrowings.

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

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

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

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

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

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

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

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

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

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

The present value of finance lease liabilities is as follows:

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

Covenants:

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

Financial ratios to be fulfilled include the following:

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

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

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

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

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

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

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

17. Employee benefits

Defined contributions plans:

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

Defined benefit plans:

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

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

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

Pension and post-employment medical benefits

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

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

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

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

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

The primary actuarial assumptions were as follows:

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

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

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

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

18. Income taxes

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

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

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

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

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

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

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

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

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

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

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

19. Shareholders' equity

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

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

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

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

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

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

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

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

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

20. Discontinued Operations

Masive Segment Disposition

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

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

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

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

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

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

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

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

21. Revenues

a. Income for services:

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

b. Income by geographical areas:

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

22. Expenses classified by their nature

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

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

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

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

23. Other income, net

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

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

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

24. Financial result, net

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

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

25. Employee benefit expenses

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

26. Transactions with related parties

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

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

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

(1) Indemnification (see Note 2).

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

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

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

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

27. Contingencies and commitments

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

I. Contingencies

Disagreements related to Interconnection with other mobile operators.

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

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

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

b. Grupo Telefónica.

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

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

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

c. Grupo Iusacell (today AT&T).

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

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

d. Interconection agreeements with Telmex & Telnor.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other contingencies

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

28. Segment information

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

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

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

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

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

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

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

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

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

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

I. Financial information by segments:

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

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

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

29. Subsequent events

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

30. Authorization to issue the financial statements

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

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

* * * * *

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, 2017 and 2016, and Independent Auditors' Report Dated January 31, 2018

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, 2017 and 2016

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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 comprise the consolidated statement of financial position as of December 31, 2017, and the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including 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, 2017 and its consolidated financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

Basis for opinion

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

Other matter

The Company's consolidated financial statements for the year ended December 31, 2016, have been audited by other auditors, who expressed an unqualified opinion on February 21, 2017.

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.

Deloitte se refiere a Deloitte Touche Tohmatsu Limited, sociedad privada de responsabilidad limitada en el Reino Unido, y a su red de firmas miembro, cada una de ellas como una entidad legal única e independiente. Conozca en www.deloitte.com/mx/conozcanos la descripción detallada de la estructura legal de Deloitte Touche Tohmatsu Limited y sus firmas miembro.

Assessment of impairment of long-lived assets and goodwill

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

Mainly due to the importance of the goodwill and intangible assets balances in the consolidated financial statements of the Company, which consist of $1,509 million, as well as the property, plant and equipment balance of $19,276 million, and because impairment tests involve the application of significant judgments by the Company's management in determining the assumptions related to the estimation of the recoverable value of its cash generating units ("CGUs").

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

- We reviewed the models applied to determine the recoverable value of the intangible assets and methods used for valuing assets with similar characteristics.
- We 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 timely monitoring and analysis by the Board of Directors.
- We 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.
- Independent assessment of discount rates used and the methodology used in the preparation of the model of the impairment test. In addition, we tested the integrity and accuracy of the impairment model and the book value of CGUs.
- To determine the CGUs, we considered the Company's operating cash flows, synergies that have been generated in the business, the market segments where they operate and the different lines of goods and services that they offer their clients.
- We discussed with management the sensitivity calculations for all CGUs, calculating the degree to which the assumptions used will need to be changed, and the likeliness these changes may arise.

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

Assessment of the recoverability of deferred income tax assets

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

Due to the significance of the deferred income tax asset balance as of December 31, 2017 amounting to $3,748 million, and the significant judgments and estimates to determine future projections of the Company's taxable income, we focused on this line item and performed, among others, the following procedures:

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

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

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

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

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

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

C. P. C. Héctor García Garza
Monterrey, Nuevo León México
January 31, 2018

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, 2017 and 2016
Thousands of Mexican pesos

	Note	2017	2016
Assets			
Current assets:			
Cash and cash equivalents	6	$ 1,257,803	$ 1,447,118
Trade and other accounts receivable, net	8	3,544,102	4,066,826
Inventories	9	188,885	109,388
Financial instruments	4	164,278	152,978
Prepayments		485,732	517,455
Derivative financial instruments	4	61,913	-
Total current assets		5,702,713	6,293,765
Non-current assets:			
Restricted cash	7	161,955	153,040
Non-current accounts receivable	8	-	8,642
Property, plant and equipment, net	10	19,275,810	19,619,451
Goodwill and intangible assets, net	11	1,508,512	1,838,727
Deferred income taxes	18	3,747,711	4,056,773
Other non-current assets	12	357,073	205,305
Total non-current assets		25,051,061	25,881,938
Total assets		$30,753,774	$32,175,703
Liabilities and Shareholders' Equity			
Current liabilities:			
Debt	16	$ 1,378,934	$ 1,028,588
Trade and other accounts payable	13	6,095,724	5,645,436
Provisions	14	117,908	129,647
Deferred income	15	312,121	1,022,605
Total current liabilities		7,904,687	7,826,276
Non-current liabilities:			
Debt	16	19,043,736	20,485,861
Other non-current accounts payable	13	713,602	985,975
Employee benefits	17	588,696	467,036
Deferred income taxes	18	10,648	10,318
Total non-current liabilities		20,356,682	21,949,190
Total liabilities		28,261,369	29,775,466
Shareholders' equity:			
Controlling interest:			
Capital stock	19	464,368	10,233,841
Additional paid-in capital		159,551	644,710
Retained earnings (accumulated deficit)		1,863,294	(8,484,717)
Other reserves		5,186	6,398
Total controlling interest		2,492,399	2,400,232
Non-controlling interest		6	5
Total shareholders' equity		2,492,405	2,400,237
Total liabilities and shareholders' equity		$30,753,774	$32,175,703

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

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

Consolidated Statements of Income

For the years ended December 31, 2017 and 2016
Thousands of Mexican pesos

	Note	2017	2016
Revenues		$15,513,090	$13,937,320
Cost of sales		(7,403,603)	(5,944,104)
Gross profit		8,109,487	7,993,216
Administration and selling expenses		(7,222,132)	(7,364,867)
Other income (expenses), net	21	518,298	(837,729)
Operating income (loss)		1,405,653	(209,380)
Financial income	22	56,698	24,381
Financial expenses	22	(1,647,027)	(2,102,100)
Exchange fluctuation gain (loss), net	22	648,280	(2,778,680)
Gain on changes in fair value of financial instruments		27,052	-
Financial result, net		(914,997)	(4,856,399)
Equity in income of associates recognized using the equity method		-	(5,189)
Income (loss) before taxes		490,656	(5,070,968)
Income taxes	18	(428,484)	1,471,706
Net consolidated income (loss)		$ 62,172	$ (3,599,262)
Income (loss) attributable to:			
Controlling interest		$ 62,171	$ (3,599,267)
Non-controlling interest		1	5
		$ 62,172	$ (3,599,262)
Profit (loss) per basic and diluted share*		$ 0.003	$ (0.20)
Weighted average common outstanding shares (thousands of shares)		19,739,584	18,415,933

* In 2016, the impact of including the effect of convertible bonds and the financial liability as a result of the merger is antidilutive, thus the basic and diluted profit remains unchanged. See Note 19.

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

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

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016
Thousands of Mexican pesos

	Note	2017	2016
Net consolidated income (loss)		$62,172	$(3,599,262)
Other comprehensive income for the year:			
Items that will be reclassified to the consolidated statement of income:			
Effect of currency translation	18	(1,212)	10,189
Items that will not be reclassified to the consolidated statement of income:			
Remeasurements of employee benefits, net of taxes	18	(7,602)	(17,617)
Total other comprehensive income for the year		(8,814)	(7,428)
Total comprehensive income (loss) of the year		$53,358	$(3,606,690)
Attributable to:			
Controlling interest		$53,357	(3,606,695)
Non-controlling interest		1	5
Comprehensive income (loss) of the year		$53,358	$(3,606,690)

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, 2017 and 2016
Thousands of Mexican pesos

	Controlling interest								
	Capital stock	Additional paid- in capital	Reserve for repurchase of shares	(Accumulated deficit) retained earnings	Other reserves	Total controlling interest	Non-controlling interest	Total shareholders' equity
Balances as of January 1, 2016	$ 6,861,986	$644,710	$ 90,000	$(3,719,469)	$(3,791)	$3,873,436	$ -	$3,873,436
Transactions with shareholders:								
Write-off of reserve for repurchase of shares	-	-	(90,000)	90,000	-	-	-	-
Capital increase for conversion of bonds	36,094	-	-	-	-	36,094	-	36,094
Merger effect	3,335,761	-	-	(1,197,805)	-	2,137,956	-	2,137,956
Other	-	-	-	(40,559)	-	(40,559)	-	(40,559)
	3,371,855	-	(90,000)	(1,148,364)	-	2,133,491	-	2,133,491
Net consolidated loss	-	-	-	(3,599,267)	-	(3,599,267)	5	(3,599,262)
Total other comprehensive income for the year	-	-	-	(17,617)	10,189	(7,428)	-	(7,428)
Comprehensive loss	-	-	-	(3,616,884)	10,189	(3,606,695)	5	(3,606,690)
Balances as of December 31, 2016	$10,233,841	$644,710	$ -	$(8,484,717)	$ 6,398	$2,400,232	$ 5	$2,400,237
Transactions with shareholders:								
Loss absorption	(9,868,332)	(644,710)	-	10,513,042	-	-	-	-
Issuance of shares	98,859	159,551	-	-	-	258,410	-	258,410
Accounts payable to holding company	-	-	-	(219,600)	-	(219,600)	-	(219,600)
	(9,769,473)	(485,159)	-	10,293,442	-	38,810	-	38,810
Net consolidated income	-	-	-	62,171	-	62,171	1	62,172
Total other comprehensive income for the year	-	-	-	(7,602)	(1,212)	(8,814)	-	(8,814)
Comprehensive income	-	-	-	54,569	(1,212)	53,357	1	53,358
Balances as of December 31, 2017	$ 464,368	$159,551	$ -	$ 1,863,294	$ 5,186	$2,492,399	$ 6	$2,492,405

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, 2017 and 2016
Thousands of Mexican pesos

	2017	2016
Cash flows from operating activities		
Income (loss) before taxes	$ 490,656	$(5,070,968)
Depreciation and amortization	4,033,839	3,829,589
Exchange fluctuation (gain) loss, net	(648,280)	2,778,679
Allowance for doubtful accounts	235,345	209,930
(Gain) loss from sale of property, plant and equipment	(823,269)	4,483
Estimate of realizable fair value of inventories	-	558
Interest income	(56,698)	(24,381)
Interest expense	1,647,027	1,805,661
Current PTU (statutory employee profit sharing)	11,873	13,192
Equity in net income of associates	-	5,189
Disposal of property, plant and equipment	-	52,795
Provisions and other	(13,288)	(92,390)
Change in unrealized fair value and settlement of financial instruments	(27,052)	296,439
Changes in working capital:		
Trade and other accounts receivable, net	242,026	480,889
Inventories	(79,497)	(16,134)
Trade accounts payable, related parties and other accounts payable	88,554	(789,846)
Employee benefits	84,666	180,175
Paid PTU	(14,519)	(6,507)
Deferred income	(710,484)	474,117
Subtotal	4,460,899	4,131,470
Income taxes paid	(66,214)	(233,816)
Net cash flows generated by operating activities	4,394,685	3,897,654
Cash flows from investing activities		
Acquisitions of property, plant and equipment	(2,953,529)	(3,185,729)
Disposal de property, plant and equipment	856,964	80,772
Acquisition of intangible assets	(95,128)	(960,034)
Interest income	56,508	24,381
Other assets	(34,420)	51,544
Investment in shares of Altan	(137,719)	-
Merger effect, net	-	450,708
Disposal of investment in associate	-	11,234
Net cash flows used in investing activities	(2,307,324)	(3,527,124)
Cash flows from financing activities		
Proceeds of current and non-current debt	16,039,280	16,133,066
Payments of current and non-current debt	(16,874,140)	(15,421,366)
Interest paid and other financial expenses	(1,512,296)	(2,386,734)
Net cash flows used in financing activities	(2,347,156)	(1,675,034)
Net decrease of cash and cash equivalents	(259,795)	(1,304,504)
Effect of changes in exchange rates	70,480	176,400
Cash and cash equivalents at the beginning of the year	1,447,118	2,575,222
Cash and cash equivalents at the end of the year	$ 1,257,803	$ 1,447,118
Non-cash significant transactions:		
Conversion of bonds (See note 19)	$ -	$ 36,094
Issuance of shares (See note 19)	258,410	-
Finance leases	310,778	174,201

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, 2017 and 2016
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 main office is located at Boulevard Díaz Ordaz km 3.33 L-1, Colonia Unidad San Pedro, 66215 San Pedro Garza García, Nuevo León, Mexico.

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

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

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

In the following notes to the consolidated financial statements, references to pesos or "$" mean thousands of Mexican pesos. References to dollars or "US$" mean thousands of U.S. dollars, unless otherwise indicated.

2. Relevant events

2017

a. Issuance and prepayment of debt

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

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

b. Shareholding in Altan

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

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

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

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

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

c. Adjustment to Alfa shareholding

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

d. Sale of towers with American Tower Corp.

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

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

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

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

f. Loss absorption

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

2016

g. Merger

On December 3, 2015, the Company, Alfa and Onexa, S. A. de C. V. ("Onexa"), a subsidiary of Alfa and a group of the main shareholders of Axtel signed a cooperation agreement, as well as an agreement among shareholders (the "Agreements") to merge Onexa into Axtel. Onexa holds the capital stock of Alestra, S. de R. L. de C. V. ("Alestra") and is a 100% direct subsidiary of Alfa.

On December 15, 2015, the Company published an informative brochure at the Mexican Stock Exchange, through which, it officially declared its intention to enter into an agreement for the merger of Onexa into Axtel.

On January 15, 2016, Axtel and Onexa held extraordinary shareholders' meetings to approve the merger, designating the members of the Board of Directors, the CEO and the Audit and Corporate Practices Committees. After completing the process pertaining to the legal, operating and financial review, and obtaining authorizations from the authorities, the transaction became effective on February 15, 2016, when Alfa became Axtel's majority shareholder, with the merged company disappearing and surviving company subsisting under its current business name Axtel, S. A. B. de C. V. As a result of the aforementioned merger, Alfa holds 50.19% of Axtel outstanding shares. According to the assessment of control conducted by Management, it was determined that the acquiring party was Alfa, due to which, goodwill arising from the merger and any other related effect were recorded in Alfa.

Onexa was a holding company whose only asset was its 99.98% interest in Alestra's capital stock. In turn, Alestra is a lead supplier in the IT and telecommunications service market in Mexico. Alestra focuses on the business segment, including multinational companies, institutional customers, as well as small and medium companies. Through its extensive optic-fiber and data-center network, Alestra offers administrative network, IT, data and internet services, as well as local and international long-distance services. In recent years, Alestra has refocused its business strategy by concentrating on the segment pertaining to administrative networks and IT service such as data centers, cloud services, systems integration and network security.

Under the merger agreements, in exchange for 100% of Onexa voting shares, Axtel issued 9,594,008,144 shares for Alfa, at the rate of 0.7140 per Onexa share, acquiring 50.19% of the combined entity's voting shares. The Agreements established a series of rights and obligations for the parties involved in terms of corporate governance and decision making, that granted Alfa the ability to direct activities related to the merged entity, mainly due to the fact that Alfa appoints most of the members of the Board of Directors and the main Directors who hold the power to direct the merged entity's relevant operations. Alestra's CEO, who prior to the transaction was a wholly owned subsidiary of Alfa, is the Company's CEO as from February 15, 2016.

As from the merger date, Alestra is a subsidiary of Axtel. Alestra's inclusion in the consolidated financial statements was not recognized as a business combination due to the fact that Alestra is controlled by Alfa both before and after the merger. Alestra's net book value was recognized using the predecessor method and no profit or loss was recognized in the consolidated statement of income as a result of the transaction.

The difference between the book value of Alestra's net assets of $3,368,099 and the fair value of the issue of shares of $6,850,122 was recognized as an effect of the merger in the merger reserve account for $3,482,023. See Note 19.

As part of the merger, on the date the transaction took effect, in a separate operation but related to the merger, and based on the Agreements, Alestra paid $809,793 as compensation for assuming certain obligations to do and not to do (confidentiality and abstaining from certain activities, among others), which has been recognized as an intangible asset. See Note 11.

The aforementioned agreements included certain indemnity payments in the event of default by any of the parties, such as: a consequence of the lack of integrity, inaccuracy or falsehood, solely with respect to their own statements and/or failure to comply with their respective obligations. On the basis of the foregoing and in accordance with the obligations assumed under the aforementioned agreements, an agreement was reached for Alfa to receive compensation from Axtel for the negative economic effects that resulted in certain uncollectible accounts receivable of $983,747. See Notes 19 and 24. Said amount was recorded with a charge to capital, as it pertained to operations between the holding company, Alfa, and its subsidiary, Axtel, at the period close, the liability has been recorded in related parties in the suppliers and other accounts payable line item.

As a result of the aforementioned merger agreements, the parties agreed to an adjustment to the fair value assigned to the issuance of shares to Alfa, related to the exchange rate of the Mexican peso to the U.S. dollar. In said agreement expiring on July 14, 2017, Alfa is required to pay a minimum US$0 and up to US$65 million, in the event the average exchange rate is between $16 and $14.50 pesos or less per U.S. dollar until the date of expiration. Otherwise, Alfa would receive between 0% and 2.50% additional shareholding interest in Axtel, if said exchange rate were between $17.01 and $18.50 pesos or more per U.S. dollar. In accordance with IFRS (IAS 32), this agreement represents a financial liability to be liquidated with own shares presented as a liability in the short term in the Suppliers and other accounts payable line item. Upon exercising this instrument, at maturity, the conversion will result in a variable number of shares, increasing the capital stock. At December 31, 2016, Axtel has applied $246,396, corresponding to the value of the instrument, to retained earnings.

As a result of the merger, the Company incurred a number of expenses totaling $835,200, which it classified as merger expenses in the other operating expenses line item. See Note 21.

Income contributed for Alestra assets included in the consolidated statement of income from the effective acquisition date at December 31, 2016 amounted to $5,889,266 and a net profit of $228,812. Had the acquisition taken place on January 1, 2016, income would have increased by $780,759 and net income would have decreased by approximately $91,383.

h. Debt

As a result of the above-mentioned merger, the Company conducted the following operations:

On January 15, 2016, the Company signed loans for US$500,000 and $4,759,000 to refinance all of the senior notes expiring in 2017, 2018 and 2020. Redemption took effect on February 19, 2016. The entire new loan expires in January 2019 for the portion in pesos and quarterly payments to the capital beginning in April 2018 and up to February 2021 for the dollar portion, at the interbank interest rate (TIIE from Spanish) for the portion in pesos, plus 2% in the first year, TIIE plus 2.25% in the second and TIIE plus 2.5% in the third and an initial interest rate for the dollar portion at LIBOR plus 2.25%, to be increased up to LIBOR plus 3.25%. Management analyzed the effects of this operation and determined it had acquired a new debt.

During April 2016, the Company obtained an additional portion of said loan, for $1,500 million, to refinance the debt maturing in the short term. This portion matures in 5 years, quarterly payments on the capital beginning in 2018 at the TIIE + 2.25%, to be increased to the TIIE + 2.75%.

In order to obtain these resources, expenses were incurred in the amount of $270,168, of which, during 2016, $98,108 has been recognized as part of the effective interest expense related to the new debt. Moreover, in 2016, the Company exercised its option for prepayment and incurred a penalty for early cancellation of $758,064, which was recognized as part of the interest expense on financing. The Company charged a net total $83,527 to income for the year, corresponding to costs, discounts and premiums on the original debt.

On January 31, 2013, the Company completed an exchange of unsecured bonds maturing in 2017 and 2019, for bonds and a secured convertible bond, respectively, maturing in 2020, plus a payment in cash to the participating holders. The holders of the convertible bonds could opt to convert the notes in American Depository Shares ("ADSs") or in Certificate of participation (CPOs). An embedded derivative was recorded, arising from the conversion option. Said derivative of $71,318 was extinguished at the date of prepayment of the debt and was applied to financial income for the period.

3. Summary of significant accounting policies

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

a. ***Basis of preparation***

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

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

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

b. ***Changes in accounting policies and disclosures***

i. New standards and changes adopted by the Company

The Company adopted all new standards and interpretations in effect as of January 1, 2017, including the annual improvements to IFRS; however, they had no significant effects on the Company's consolidated financial statements.

ii. New standards and interpretations yet to be adopted by the Company.

A number of new standards, amendments and interpretations that have been issued and are not yet effective for reporting periods ended December 31, 2017, have not been early adopted by the Company.

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

IFRS 9, Financial Instruments

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

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

The Company did not have a material impact associated with the new measurement category of FVTOCI as it does not currently hold any instruments that qualify for this treatment; however, potential impacts could arise should it change its investment strategy in the future.

Lastly, regarding the new expected loss impairment model, the Company's management decided to adopt the standard retrospectively recognizing the effects on retained earnings as of January 1, 2018 and has determined that the impacts on its consolidated financial position are not material as of that date. The Company has estimated that the effects it will have on its results from operations are not significant.

IFRS 15, Revenues from Contracts with Customers

IFRS 15, *Revenues from Contracts with Customers*, was issued in May 2014 and is effective for periods beginning January 1, 2018, although early adoption is permitted. Under this standard, revenue recognition is based on the transfer of control, i.e. notion of control is used to determine when a good or service is transferred to the customer.

The standard also presents a single comprehensive model for the accounting for revenues from contracts with customers and replaces the most recent revenue recognition guidance, including the specific orientation of the industry. This comprehensive model introduces a five-step approach for revenue recognition: (1) identifying the contract; (2) identifying the performance obligations in the contract; (3) determining the transaction price; (4) allocating the transaction price to the performance obligations in the contract; and (5) recognizing revenue when the entity satisfies a performance obligation. Furthermore, the amount of disclosures required in the consolidated financial statements, both annual and interim, is increased.

The Company has determined that IFRS 15 will impact the following items: (i) contracts with multiple performance obligations, and (ii) the deferred recognition of costs to obtain contracts. The Company's management will utilize the modified prospective method for contracts entered into prior to January 1, 2018. Based on its analysis, the Company didn't identify significant impacts associated with the initial adoption of IFRS 15, and will consider the requirements of this standard on new revenue generating contracts as of the adoption date. The new standard provides for additional disclosure requirements for contracts with clients.

For new contracts entered into subsequent to January 1, 2018, which include embedded leases of the equipment used to provide services to customers, the Company will recognize revenues for the sale of such equipment as of the inception date of the lease, as well as the corresponding cost of equipment and a lease receivable for the contractual payments equivalent to the net investment in the lease. Additionally, the Company will recognize interest income over the contractual period in accordance with the effective interest method.

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 finance leases. IFRS 16 is effective for periods beginning on or after January 1, 2019.

Under IFRS 16, lessees will recognize the right of use as an asset and the corresponding lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. On the other hand, the financial liability will be measured at the initial recognition, in a similar way as required by IAS 17 and subsequently, it should be evaluated if a remeasurement is required, based on contractual modifications of the minimum lease payments.

Additionally, IFRS 16 establishes as exception to these requirements leases with a term of 12 months or less and containing no purchase options, as well as for leases where the leased asset is low-valued, such as small office furniture items or personal computers.

Management has determined that IFRS 16 could have an impact on the accounting of its existing operating leases. As of December 31, 2017, the Company has non-cancellable operating lease commitments of $8,283,702; however, it has not determined yet to what extent these commitments will result in the recognition of an asset or liability for future payments, and how this will affect the Company's capital structure, its results and cash flows. The Company will be applying a modified retrospective transition as of January 1, 2019, which implies that any transition impact will be recognized directly in stockholders' equity as of such date.

IFRIC 22, Interpretation on Foreign Currency Transactions and Advance Consideration

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

The Company translates advance consideration at the exchange rate on the date of the transaction, either received or paid; as a result, management concluded there were no significant impacts on the Company's consolidated financial statements resulting from the adoption of this interpretation.

IFRIC 23, Interpretation on Uncertainty over Income Tax Treatments

This new interpretation clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Tax*, 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 circumstances, an entity shall recognize and measure its current or deferred tax assets or liabilities by applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and the tax rates determined by applying this interpretation.

The Company shall apply IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted and should be disclosed. On initial application, IFRIC 23 must be applied retrospectively under the requirements of IAS 8 modifying comparative periods or retrospectively with the cumulative effect of initially applying the interpretation as an adjustment to the opening balance of retained earnings, without modifying comparative periods.

The Company is assessing and determining the potential impacts for the adoption of this interpretation on its consolidated financial statements.

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 acquiree based on the share of the non-controlling interest in the net identifiable assets of the acquired entity.

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

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

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

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

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

As of December 31, 2017 and 2016, the main subsidiary companies of Axtel were as follows:

		Shareholding interest (%)		
	Country	**2017**	**2016**	**Functional currency**
Axtel, S. A. B. de C. V. (Holding company) (3)	Mexico			Mexican peso
Servicios Axtel, S. A. de C. V. (1)	Mexico	100	100	Mexican peso
Alestra Comunicación, S. de R. L. de C. V. (3) (a)	Mexico	100	100	Mexican peso
Avantel, S. de R. L. de C. V. ("Avantel") (3)	Mexico	100	100	Mexican peso
Axes Data, S. A. de C. V. (1)	Mexico	100	100	Mexican peso
Contacto IP, S. A. de C. V. (1)	Mexico	100	100	Mexican peso
Instalaciones y Contrataciones, S. A. de C. V. (1)	Mexico	100	100	Mexican peso
Alestra, S. de R. L. de C. V. ("Alestra") (3) (c)	Mexico	-	100	Mexican peso
Servicios Alestra, S. A. de C. V. (1)	Mexico	99.98	99.98	Mexican peso
Ingeniería de Soluciones Alestra, S. A. de C. V. (1)	Mexico	100	100	Mexican peso
Alestra USA, Inc. (2)	USA	100	100	U.S. dollar
S&C Constructores de Sistemas, S. A. de C. V. ("S&C")	Mexico	100	100	Mexican peso
Alesre Insurance Pte, Ltd. (4)	Singapore	100	100	U.S. dollar
Cogeneración de Querétaro, S. A. de C. V. (1) (b)	Mexico	-	99.99	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	100	100	Mexican peso

(a) On July 25, 2016, the merger of G-Tel Comunicación, S. A. P. I. de C. V. into Alestra Comunicación, S. de R. L. de C. V., (formerly Avantel Infraestructura, S. de R. L. de C. V.) was agreed. This merger became effective on August 1, 2016.

(b) Company liquidated on November 2017.

(c) On April 27, 2017, a merger agreement was signed by incorporation between Alestra, S. de R. L. de C. V. with Axtel, S. A. B. de C. V., the merger was effective as of May 1, 2017 and has no impact on the operation at the consolidated level of the Company.

(1) Provider of administrative services.

(2) Leasing of telecommunications and infrastructure equipment.

(3) Provider of telecommunication services.

(4) Company with no primary operations.

As of December 31, 2017 and 2016, there are no significant restrictions for the investment in shares of the subsidiary companies mentioned above.

ii. Absorption (dilution) of control in subsidiaries

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

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

iii. Sale or disposal of subsidiaries

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

iv. Associates

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

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

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

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

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

As of December 31, 2017, the Company has no associates. During 2016, the only associate was Conectividad Inalámbrica 7 GHz, S. de R. L. de C. V. ("Conectividad Inalámbrica"), which was liquidated during the period.

d. Foreign currency translation

i. Functional and presentation currency

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

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

ii. Transactions and balances

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

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

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

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

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

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

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

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

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

		Local currency to Mexican pesos			
		Closing exchange rate as of December 31,		**Average annual exchange rate**	
Country	**Local currency**	**2017**	**2016**	**2017**	**2016**
United States	U.S. dollar	19.74	20.66	18.94	18.66

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 its financial assets in the following categories: at fair value through profit or loss, loans and receivables, investments held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets upon initial recognition. Purchases and sales of financial assets are recognized on the settlement date.

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

i. *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges.

Financial assets at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the consolidated statement of income. Gains or losses from changes in fair value of these assets are presented in the consolidated statement of income as incurred.

ii. *Loans and accounts receivable*

The receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the consolidated statement of financial position date. These are classified as non-current assets.

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

Financial liabilities

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

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

Offsetting financial assets and liabilities

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

Impairment of financial instruments

a. Financial assets carried at amortized cost

   The Company assesses at the end of each year whether there is objective evidence of impairment of each financial asset or group of financial assets. An impairment loss is recognized if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and provided that the loss event (or events) has an impact on the estimated future cash flows arising from the financial asset or group of financial assets that can be reliably estimated.

   Aspects evaluated by the Company to determine whether there is objective evidence of impairment are:

   - Significant financial difficulty of the issuer or debtor.
   - Breach of contract, such as late payments of interest or principal.
   - Granting a concession to the issuer or debtor, by the Company, as a result of financial difficulties of the issuer or debtor and that would not otherwise be considered.

- There is a likelihood that the issuer or debtor will enter bankruptcy or other financial reorganization.
- Disappearance of an active market for that financial asset due to financial difficulties.
- Verifiable information indicates that there is a measurable decrease in the estimated future cash flows related to a group of financial assets after initial recognition, although the decrease cannot yet be identified with the individual financial assets of the Company, including:
  i. Adverse changes in the payment of borrowers in the group of assets.
  ii. National or local conditions that correlate with breaches of noncompliance by the issuers of the asset group.

Based on the items listed above, the Company assesses whether there is objective evidence of impairment. Subsequently, for the category of loans and receivables, when impairment exists, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the original effective interest rate. The carrying amount of the asset is reduced by that amount, which is recognized in the consolidated statement of income.

If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. Alternatively, the Company could determine the impairment of the asset given its fair value determined on the basis of a current observable market price.

If in subsequent years, the impairment loss decreases and the decrease can be related objectively to an event occurring after the date on which such impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the loss impairment is recognized in the consolidated statement of income.

Information on impairment of accounts receivable is set out in Note 8.

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, types of derivatives and the effectiveness of the hedging relationship, characteristics, accounting recognition and how the effectiveness is to be measured.

Fair value hedges

Changes in the fair value of derivative financial instruments are recorded in the consolidated statements of income. The change in fair value hedges and the change in the primary position attributable to the hedged risk are recorded in the consolidated statement of income in the same line item as the hedged position. As of December 31, 2017 and 2016, the Company has no derivative financial instruments classified as fair value hedges.

Cash flow hedges

The changes in the fair value of derivative instruments associated to cash flow hedges are recorded in shareholders' equity. The effective portion is temporarily recorded in comprehensive income, within shareholders' equity and is reclassified to profit or loss when the hedged position affects these, the ineffective portion is immediately recorded in profit or loss. As December 31, 2017 and 2016, the Company does not have derivative financial instruments classified 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, or when the Company decides to cancel the hedge designation.

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

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

i. ***Inventories***

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

j. ***Prepayments***

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

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

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

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

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

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

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

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

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

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

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

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

l. ***Leases***

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

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

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

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

Indefeasible Right of Use (IRU) leases are considered to qualify as finance 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 - 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, 2017 and 2016, intangible assets with indefinite life of the Company include only 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 possible reversal of the impairment at each reporting date.

p. Income tax

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

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

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

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

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

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

q. ***Employee benefits***

i. Pension plans

Defined contribution plans:

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

Defined benefit plans:

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

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

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

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

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

ii. Post-employment medical benefits

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

iii. Termination benefits

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

iv. Short-term benefits

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

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

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

r. Provisions

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

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

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

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

s. Share-based payments

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

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

t. ***Capital stock***

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

u. ***Comprehensive income***

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

v. ***Segment reporting***

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

w. ***Revenue recognition***

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and rendering of services in the normal course of operations. Revenue is shown net of estimated customer returns, rebates and similar discounts.

Revenue from rendering of services are recognized as follows:

- Revenue from the provision of data transmission services, internet and local services are recognized when services are rendered.
- Revenues from national and international long distance outgoing and incoming services are recognized based on minutes of traffic processed by the Company and processed by a third party, respectively.
- Installation revenues and related costs are recognized as revenue during the period of the contract with the customers.
- The estimates are based on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from the sale of goods are recognized when all and each of the following conditions are met:

- The risks and rewards of ownership have been transferred.
- The amount of revenue can be reliably measured.
- It is likely that future economic benefits will flow to the Company.
- The Company retains no involvement associated with ownership nor effective control of the sold goods.
- The costs incurred, or to be incurred, in respect of the transaction can be measured reasonably.

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 for the acquisition of subscribers are recognized in profit or loss as they are incurred.

x. Advances from customers

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

y. Earnings per share

Earnings per share are calculated by dividing the profit attributable to the shareholders by the weighted average number of common shares outstanding during the year. As of December 31, 2017 and 2016, there are no dilutive effects from financial instruments potentially convertible into shares.

4. Financial instruments and financial risk management

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

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

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

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

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

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

Capital management

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

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

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

The financial ratio of total liabilities / total equity was 11.34 times and 12.41 times as of December 31, 2017 and 2016, 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, 2017 and 2016, financial assets and liabilities consist of the following:

	As of December 31, 2017		
	Accounts receivable and payable at amortized cost	Financial assets and liabilities at fair value with changes through profit or loss	Total categories
Financial assets:			
Cash and cash equivalents	$ 1,257,803	$ -	$ 1,257,803
Restricted cash	161,955	-	161,955
Trade and other accounts receivable	2,852,437	-	2,852,437
Financial instruments (zero strike call)	-	164,278	164,278
Derivative financial instruments	-	61,913	61,913
Total financial assets	$ 4,272,195	$ 226,191	$ 4,498,386
Financial liabilities:			
Current debt	$ 1,378,934	$ -	$ 1,378,934
Trade payables, related parties and sundry creditors	5,084,307	-	5,084,307
Non-current debt	19,043,736	-	19,043,736
Other non-current accounts payable	713,602	-	713,602
Total financial liabilities	$26,220,579	$ -	$26,220,579

	As of December 31, 2016		
	Accounts receivable and payable at amortized cost	Financial assets and liabilities at fair value with changes through profit or loss	Total categories
Financial assets:			
Cash and cash equivalents	$ 1,447,118	$ -	$ 1,447,118
Restricted cash	153,040	-	153,040
Trade and other accounts receivable	3,207,349	-	3,207,349
Financial instruments (zero strike call)	-	152,978	152,978
Non-current accounts receivable	8,642	-	8,642
Total financial assets	$ 4,816,149	$ 152,978	$ 4,969,127
Financial liabilities:			
Current debt	$ 1,028,588	$ -	$ 1,028,588
Trade payables, related parties and sundry creditors	4,286,158	246,396	4,532,554
Non-current debt	20,485,861	-	20,485,861
Other non-current accounts payable	985,975	-	985,975
Total financial liabilities	$26,786,582	$ 246,396	$27,032,978

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, 2017 and 2016.

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

	As of December 31, 2017		As of December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities:				
Debt (*)	$19,775,122	$18,039,800	$21,162,446	$20,183,807
Long-term accounts payable to Alfa (**)	713,602	709,735	983,747	983,747

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

(**) In 2016, the fair value of the long-term account payable to Alfa approximates its carrying amount because of the term and interest rate conditions. See Note 24.

As of December 31, 2016, the fair value of non-current accounts receivable is $8,310 compared to its carrying amount of $8,642. As of December 31, 2017, the Company has no financial assets valued at amortized cost.

The estimated fair values as of December 31, 2017 and 2016 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 placed 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, 2017:

	USD (translated to thousands of MXP)
Financial assets	$ 614,952
Financial liabilities	(15,974,008)
Foreign exchange monetary position	$(15,359,056)

As of December 31, 2016, the Company did not have derivative financial instruments to hedge exchange rate risk. However, during 2017, Axtel contracted several derivative financial instruments, mainly forwards, to hedge this risk. These derivatives have been designated at fair value with changes through profit or loss for accounting purposes as explained in the next section of this note.

Based on the financial positions in foreign currency maintained by the Company, a hypothetical variation of 10% in the MXN/USD exchange rate and keeping all other variables constant, would result in an effect of $1,535,906 on the consolidated statement of income and shareholders' equity.

Financial instruments and derivative financial instruments

Financial instruments

As of December 31, 2017 and 2016, 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, 2017 and 2016, 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	
				2017	2016
Bank of America Merrill Lynch	30,384,700	2010 y 2009	CPO's Axtel	$114,854	$106,954
Corporativo GBM, S. A. B. de C. V.	13,074,982	2015 y 2014	CPO's Axtel	49,424	46,024
				$164,278	$152,978

For the year ended December 31, 2017, the changes in fair value of the Zero Strike Calls gave rise to an unrealized gain of $11,300 (unrealized loss of $225,121 for the year ended December 31, 2016), recognized in the consolidated statement of income within financial income and expenses.

Derivative financial instruments

For the year ended December 31, 2017, the Company maintained the following derivative financial instruments designated at fair value with changes through profit or loss:

a. Exchange rate agreements

Positions of foreign currency derivative financial instruments are summarized as follows:

Forward contracts

		As of December 31, 2017							
		Value of underlying asset			Maturity by year				
Type of derivative, value or agreement	**Notional amount**	**Units**	**Reference**	**Fair value**	**2018**	**2019**	**2020 +**	**Collateral / guarantee**
At fair value with changes through profit or loss:								
USD/MXP	$63,400	Peso/Dollar	19.74	$61,913	$61,913	$ -	$ -	$ -

(ii). Interest rate risk and cash flow

The Company's interest rate risk is associated to its long-term loans. Variable rate loans expose the Company to interest rate risks on cash flows, which are partially offset by the cash held at variable rates. Fixed rate loans expose the Company to interest rate risks related to changes in fair value.

As of December 31, 2017, 47% of Axtel's total debt generates variable interest, whereas the remaining 53% generates fixed interest rates.

The Company analyzes its exposure to interest rate risk dynamically. A number of scenarios are simulated, taking into account the refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Company calculates the impact on the annual result of a change in the interest rate defined by 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 its cash flows can be impacted if additional financing is required in the future when interest rates are high with respect to the Company's current conditions.

As of December 31, 2017, if interest rates on variable rate loans were increased or decreased by 100 base points, the interest expense shown in income and shareholders' equity would be modified by $99,709 and $(99,709), 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 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.

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, mass customers are completely reserved when those accounts are past due over 270 days, and business customers, carriers and government over 360 days. 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.

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

Besides 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 monetary assets at any given moment during the year. The credit risk concentration of any other customer must not exceed 5% of the gross amount of monetary assets at any given moment during the year.

Company A accounts for 1% and 5% of the Company's total accounts receivable as of December 31, 2017 and 2016, respectively. Additionally, revenues associated to Company A for the years ended December 31, 2017 and 2016 was 6% and 7%, respectively.

Company B accounts for 2% and 1% of the Company's total accounts receivable as of December 31, 2017 and 2016, respectively. Additionally, revenues related to Company B for the years ended December 31, 2017 and 2016 was 7% and 7%, respectively.

As of December 31, 2017 and 2016, the allowance for impairment totaled $2,089,484 and $1,920,753, 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 chart analyzes 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, 2017			
Current debt	$1,051,915		
Trade payable, related parties and creditors	6,373,957		
Non-current debt	-	$7,639,779	$11,292,596
Finance leases	327,019	309,493	-
Non-accrued interest payable	1,458,143	4,869,316	1,316,007

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

Fair value hierarchy

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

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

The following table presents the Company's assets and liabilities that are measured at fair value as of December 31, 2017 and 2016:

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

	As of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Zero strike calls	$152,978	$ -	$ -	$152,978
Financial liabilities:				
Financial liability as a result of the merger (Note 2)	$ -	$246,396	$ -	$246,396

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.

6. Cash and cash equivalents

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

	2017	2016
Cash on hand and in banks	$ 550,408	$ 620,862
Short-term investments	707,395	826,256
Total cash and cash equivalents	$1,257,803	$1,447,118

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, 2017 and 2016 of $161,955 and $153,040, respectively, represents the trust balance over applicable disputes for 2008 and 2010 and is shown in the consolidated statement of financial position under non-current assets.

8. Trade and other accounts receivable, net

Trade and other accounts receivable are comprised as follows:

	2017	2016
Current:		
Trade accounts receivable	$4,769,317	$5,049,799
Allowance for customer impairment (1)	(2,089,484)	(1,920,753)
Trade accounts receivable, net	2,679,833	3,129,046
Recoverable taxes	691,665	859,477
Notes and other accounts receivable	140,902	57,354
Related parties	31,702	20,949
	$3,544,102	$4,066,826
Non-current:		
Other accounts receivable	$ -	$ 8,642

(1) Movements pertaining to the allowance for impairment of trade receivables are as follows:

	2017	2016
Opening balance	$1,920,753	$3,178,325
Write-off of doubtful accounts	(66,614)	(1,571,426)
Allowance for doubtful accounts for the year	235,345	209,930
Increase due to merger	-	103,924
Ending balance	$2,089,484	$1,920,753

To determine the recoverability of accounts receivable, the Company considers any change in the credit quality of account receivable from the date on which the credit is granted to the date of the consolidated financial statements. The credit risk concentration is moderate due to the number of customers and the fact that they are not related.

Trade accounts receivable include unimpaired past-due balances of $997,418 and $1,367,754 as of December 31, 2017 and 2016, respectively.

The analysis by age of the unimpaired past-due balances of trade accounts receivable is as follows:

	2017	2016
1 to 30 days	$333,905	$ 284,656
30 to 90 days	233,804	365,489
90 to 180 days	198,674	251,947
Over 180 days	231,035	465,662
	$997,418	$1,367,754

As of December 31, 2017 and 2016, the maximum risk inherent to accounts receivable is their carrying amount.

As of December 31, 2017, credit quality of unimpaired non past-due trade receivables, is evaluated as follows:

	Massive	Business	Government	Total
Low Risk < 60 days	$138,514	$1,281,669	$ 743,484	$2,163,667
Medium Risk 61 – 180 days	22,084	151,739	111,308	285,131
High Risk >180 days	107,935	61,531	61,569	231,035
Total	$268,533	$1,494,939	$ 916,361	$2,679,833

9. Inventories

Inventories are analyzed as follows:

	2017	2016
Materials and consumables	$188,885	$109,145
Other	-	243
	$188,885	$109,388

The cost of inventories recognized as an expense and included in the cost of sales amounted to $199,930 and $207,441 for 2017 and 2016, respectively.

For the year ended December 31, 2017 and 2016, damaged, slow-moving and obsolete inventory was charged to cost of sales in the amount of $0 and $558, respectively.

As of December 31, 2017 and 2016, 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, 2016									
Net opening balance	$ 99,003	$ 9,418,143	$ 49,532	$2,251,528	$ 34,631	$ 77,726	$167,331	$ 1,118,285	$13,216,179
Acquisitions due to merger (Note 2)	719,865	4,550,467	43,965	189,656	16,167	45,110	314,305	690,045	6,569,580
Translation effect	-	3,292	-	-	-	-	-	-	3,292
Additions	-	620,061	44	8,277	2,901	-	-	2,753,883	3,385,166
Transfers	179,201	2,104,885	4,210	198,424	13,151	8,060	6	(2,507,937)	-
Disposals	-	(100,405)	(2)	(665)	(2,486)	-	-	(34,492)	(138,050)
Depreciation charge recognized in the year	(30,500)	(3,059,965)	(22,095)	(257,039)	(20,850)	(26,267)	-	-	(3,416,716)
Ending balance	$ 967,569	$ 13,536,478	$ 75,654	$2,390,181	$ 43,514	$ 104,629	$481,642	$ 2,019,784	$19,619,451
As of December 31, 2016									
Cost	$1,163,254	$ 53,627,217	$482,638	$4,665,963	$408,448	$ 587,635	$481,642	$ 2,019,784	$63,436,581
Accumulated depreciation	(195,685)	(40,090,739)	(406,984)	(2,275,782)	(364,934)	(483,006)	-	-	(43,817,130)
Net carrying amount as of December 31, 2016	$ 967,569	$ 13,536,478	$ 75,654	$2,390,181	$ 43,514	$ 104,629	$481,642	$ 2,019,784	$19,619,451
For the year ended December 31, 2017									
Net opening balance	$ 967,569	$ 13,536,478	$ 75,654	$2,390,181	$ 43,514	$ 104,629	$481,642	$ 2,019,784	$19,619,451
Translation effect	-	1,447	-	-	-	-	-	-	1,447
Additions	-	78,312	105	4,656	6,538	164	-	3,121,041	3,210,816
Transfers	115,194	4,337,789	48,997	(1,823,961)	364	13,054	263	(2,691,700)	-
Disposals	-	(12,928)	(184)	(1,203)	(1,465)	(331)	-	(2,057)	(18,168)
Depreciation charge recognized in the year	(27,594)	(3,263,680)	(23,692)	(181,066)	(17,050)	(24,654)	-	-	(3,537,736)
Ending balance	$1,055,169	$ 14,677,418	$100,880	$ 388,607	$ 31,901	$ 92,862	$481,905	$ 2,447,068	$19,275,810
As of December 31, 2017									
Cost	$1,428,354	$ 55,801,809	$517,212	$4,925,324	$389,638	$ 607,992	$481,905	$ 2,447,068	$66,599,302
Accumulated depreciation	(373,185)	(41,124,391)	(416,332)	(4,536,717)	(357,737)	(515,130)	-	-	(47,323,492)
Net carrying amount as of December 31, 2017	$1,055,169	$ 14,677,418	$100,880	$ 388,607	$ 31,901	$ 92,862	$481,905	$ 2,447,068	$19,275,810

Of the total depreciation expense, \$3,404,087 and \$3,095,736 were charged to cost of sales, \$133,649 and \$320,980 to selling and administrative expenses in 2017 and 2016, 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, 2017 and 2016, the Company capitalized \$29,377 and \$27,770, respectively, of borrowing costs related to qualifying assets of \$1,045,667 and \$858,114, respectively. These amounts were capitalized based on an interest rate of 7.27% and 6.09%, respectively.

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

	2017	**2016**
Cost – finance leases	\$1,578,543	\$1,370,389
Accumulated depreciation	(919,710)	(675,255)
Net carrying amount	\$ 658,833	\$ 695,134

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

11. Goodwill and intangible assets

	Definite life						Indefinite life	
	Concessions	Trademarks	Relationships with customers	Agreements not to compete	Software and licenses	Other	Goodwill	Total
Opening balance as of January 1, 2016	$ 103,701	$ -	$ -	$ -	$ -	$ 21,298	$ -	$ 124,999
Additions	6,858	40,000	-	809,793	99,791	3,592	-	960,034
Acquisitions due to merger (Note 2)	18,824	38,255	220,412	-	285,834	115,011	488,232	1,166,568
Amortization charges recognized in the year	(46,105)	(14,139)	(15,191)	(219,051)	(92,123)	(26,265)	-	(412,874)
Ending balance as of December 31, 2016	$ 83,278	$ 64,116	$ 205,221	$ 590,742	$ 293,502	$ 113,636	$ 488,232	$ 1,838,727
Cost	$ 707,395	$ 78,255	$ 220,412	$ 809,793	$ 385,625	$ 301,829	$ 488,232	$ 2,991,541
Accumulated amortization	(624,117)	(14,139)	(15,191)	(219,051)	(92,123)	(188,193)	-	(1,152,814)
Ending balance as of December 31, 2016	$ 83,278	$ 64,116	$ 205,221	$ 590,742	$ 293,502	$ 113,636	$ 488,232	$ 1,838,727
Opening balance as of January 1, 2017	$ 83,278	$ 64,116	$ 205,221	$ 590,742	$ 293,502	$ 113,636	$ 488,232	$ 1,838,727
Additions	-	-	-	-	91,083	4,861	-	95,944
Disposal	-	-	-	-	-	(1,163)	-	(1,163)
Transfers	(2,357)	-	(46,060)	-	110,127	78,093	(68,696)	71,107
Amortization charges recognized in the year	(44,582)	(15,196)	(9,745)	(265,055)	(115,876)	(45,649)	-	(496,103)
Ending balance as of December 31, 2017	$ 36,339	$ 48,920	$ 149,416	$ 325,687	$ 378,836	$ 149,778	$ 419,536	$ 1,508,512
Cost	$ 797,142	$ 258,905	$ 516,600	$ 809,793	$ 1,523,867	$ 483,892	$ 419,536	$ 4,809,735
Accumulated amortization	(760,803)	(209,985)	(367,184)	(484,106)	(1,145,031)	(334,114)	-	(3,301,223)
Ending balance as of December 31, 2017	$ 36,339	$ 48,920	$ 149,416	$ 325,687	$ 378,836	$ 149,778	$ 419,536	$ 1,508,512

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, $52,350 and $53,224 were charged to cost of sales, $443,753 and $359,649 to selling and administrative expenses in 2017 and 2016, respectively.

Company concessions

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

The Company's principal concessions are as follows:

Service	Use	Period	Maturity
Sole concession of telecommunications and/or radio broadcasting (4)	Commercial	30 years	2046
Data transmission via satellite (1) (4)	Commercial	30 years	2042
Local, national and international long-distance service (1) (4)	Commercial	30 years	2026
Point-to-multipoint microwave connection (1)	Commercial	20 years	2018
Fixed to mobile wireless access (1)	Commercial	20 years	2018
Local, national and international long-distance service (2) (4)	Commercial	30 years	2025
Basic local telephone service (2) (4)	Commercial	30 years	2029
Frequency band pertaining to radio-electric spectrum (3)	Commercial	20 years	2018
Frequencies pertaining to radio-electric spectrum (3)	Commercial	20 years	2018

(1) In November 2016, the Company obtained authorization to consolidate these concessions into the Sole Concession for commercial use.

(2) Concessions granted to Avantel.

Concessions in renovation process:

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

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

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

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

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

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

ii. Complying with the licensee's obligations in the terms of the Federal Telecommunications and Radio Broadcasting Law (LFTR from Spanish) and other applicable regulations, and the concession title;

iii. Acceptance, by the Concession holder, of the new conditions for renewal thereof, as per the provisions of the IFT.

To date, the IFT has established no amount for the corresponding compensation, and has not yet determined the aforementioned conditions to be met.

From 2013 to date, the Company has submitted a request to the IFT to extend the concessions for the use and exploitation of frequency bands pertaining to the radio-electric spectrum. In the event said concessions are renewed, this will not be considered an additional period in the amortization of prior concessions.

It should be mentioned that this situation is not particular to the Company, but rather, of all licensees having obtained a concession for the use and exploitation of frequency bands pertaining to the radio-electric spectrum in 1998, 1999 and 2000.

Telecommunications network capacity consists of the right to use fiber optics, contracted with a private party on December 10, 2012 for a 10-year period.

Impairment testing of goodwill

Goodwill is comprised of the amount paid in excess of the carrying amount of net assets and liabilities of $419,536, which were allocated to the business segment.

At the date of issuance of these consolidated financial statements, no impairment has been identified.

Impairment sensitivity analysis for goodwill and intangibles

The following describes the discount rates and long-term growth rates used for the years ended December 31, 2017 and 2016:

	2017	2016
Discount rate, after tax	10.1%	9.9%
Long-term growth rate	4.9%	5.0%

As of December 31, 2017, 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.

12. Other non-current assets

	2017	2016
Investments of shares	$139,427	$ 1,703
Connections rental	40,637	51,311
Guarantee deposit	65,881	68,237
Other	111,128	84,054
Total other non-current assets	$357,073	$205,305

13. Trade and other accounts payable

Trade and other accounts payable are analyzed as follows:

	2017	2016
Current:		
Trade accounts payable	$3,881,152	$3,183,091
Related parties	1,023,866	680,546
Value added tax and other federal and local taxes payable	834,820	990,198
Accrued expenses payable	179,289	668,917
Other	176,597	122,684
	$6,095,724	$5,645,436
Non-current:		
Related parties	$ 713,602	$ 985,975

14. Provisions

	Litigation	Restructuring [1]	Other	Total
As of January 1, 2016	$ -	$ 89,000	$101,100	$190,100
Additions	50,620	514,600	-	565,220
Additions due to merger	-	31,937	-	31,937
Payments	-	(556,510)	(101,100)	(657,610)
As of December 31, 2016	$ 50,620	$ 79,027	$ -	$129,647
Additions	18,391	99,517	-	117,908
Payments	(50,620)	(79,027)	-	(129,647)
As of December 31, 2017	$ 18,391	$ 99,517	$ -	$117,908

(1) Provisions due to restructuring include indemnities to obtain efficiencies.

Provisions as of December 31, 2017 and 2016 are short-term.

15. Deferred income

Deferred income movements during the year are shown as follows:

	2017	2016
Beginning balance	$1,022,605	$ 509,415
Increases	435,109	1,235,772
Recognized income of the year	(1,145,593)	(722,582)
Ending balance	$ 312,121	$1,022,605

16. Debt

	2017	2016
Bancomext	$ 3,562,240	$ 3,867,268
HSBC Mexico	6,108,670	-
Senior Notes (3)	9,867,700	-
Banco Nacional de México, S. A. (a) (b)	-	1,500,151
BBVA Bancomer, S. A. (a) (b) (c)	-	1,418,643
Banco Mercantil del Norte, S. A. (a) (b) (c)	-	1,418,643
JPMorgan Chase Bank, N. A. (c)	-	1,095,192
Banco J. P. Morgan, S. A. (a)	-	404,959
Banco Santander (México), S. A. (a) (c)	-	1,500,151
Bank of America, N. A. (c)	-	1,239,840
ING Bank, N. V. Dublin Branch (c)	-	1,239,840
Export Development Canada (a) (c)	-	1,176,445
The Bank of Tokyo-Mitsubishi UFJ, Ltd. (c)	-	702,576
Bank of Tokyo-Mitsubishi UFJ (México), S. A. (a)	-	370,549
Mizuko, Bank, Ltd. (c)	-	826,560
Comerica Bank (c)	-	826,560
HSBC México, S. A. (a)	-	1,058,712
Scotiabank Inverlat , S. A. (a) (c)	-	705,808
Sabcapital, S. A. de C. V., SOFOM, E. R. (a) (b) (c)	-	471,318
Morgan Stanley senior Funding, Inc. (a)	-	441,130
Banco Monex, S. A. (a) (c)	-	194,565
BBVA Bancomer, S. A. de C. V.	300,000	400,000
Finance lease with Telmex (1) (3)	266,530	400,137
Other finance leases (2) (3)	369,982	303,399
Accrued interest payable	145,681	132,815
Issuance costs	(198,133)	(180,812)
Total debt	20,422,670	21,514,449
Current portion of debt	(1,378,934)	(1,028,588)
Non-current debt	$19,043,736	$20,485,861

(a) Unsecured syndicated loan Tranche A MXP.

(b) Unsecured syndicated loan Tranche B MXP.

(c) Unsecured syndicated loan Tranche B USD.

(1) Indefeasible Right of Use (IRU) lease entered into with Teléfonos de México, S. A. B. de C. V. for an approximate amount of $708,041 expiring in 2019.

(2) Finance leases entered into with banking institutions at approximate rates of 6% for those denominated in U.S. dollars and the interbank interest rate (TIIE) plus 3% and 5.5% for those denominated in Mexican pesos, with maturities ranging between 1 and 3 years.

(3) Non-bank borrowings.

The terms, conditions and carrying amounts of non-current debt are as follows:

	Country	Currency	Interest rate: Contractual	Interest rate: Effective	Maturity date	Interest payment periodicity	As of December 31, 2017	As of December 31, 2016
Bancomext	Mexico	USD	Libor + 3%	4.43%	17/01/2024	Quarterly	$ 3,356,004	$ 3,729,852
HSBC Mexico	Mexico	MXP	TIIE + 2.75%	11.06%	15/12/2022	Monthly	5,708,670	-
Senior Notes	International	USD	6.38%	6.64%	14/11/2024	Semi-annually	9,867,700	-
Syndicated loan:								
Tranche A	Mexico	MXP	TIIE + 2%	7.03%	15/01/2019	Monthly	-	4,759,800
Tranche B	Mexico	MXP	TIIE + 2.25%	7.26%	15/01/2021	Monthly	-	1,499,842
Tranche B	Mexico	USD	EuroDolar rate+ 2.25	3.64%	15/01/2021	Quarterly	-	10,332,000
Total bank loans							18,932,374	20,321,494
Debt issuance costs							(198,133)	(180,812)
Finance leases and other							309,495	345,179
Total non-current debt							$19,043,736	$20,485,861

As of December 31, 2017, annual maturities of non-current debt are as follows:

	2019	2020	2021	2022 onwards	Total
Bank loans	$281,229	$1,497,959	$2,314,239	$ 4,773,114	$ 8,866,541
Senior Notes	-	-	-	9,867,700	9,867,700
Financel leases	243,969	63,979	1,547	-	309,495
	$525,198	$1,561,938	$2,315,786	$14,640,814	$19,043,736

Issuance costs of debentures and financings are directly attributable to issuance of the Company's debt and are amortized according to the effective interest rate over the lifetime of the debt.

As of December 31, 2017, the Company has unused contractual credit lines of $15 million pesos and US$500 thousand dollars with maturities between one and two years.

Fair value of non-current debt is disclosed in Note 4. Estimated fair values as of December 31, 2017 and 2016 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. 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 placed in international markets, the Company uses the market price of such Notes at the date of the consolidated financial statements. Measurement at fair value of such financial liabilities valued at amortized cost is deemed within Level 1 and 2 of the fair value hierarchy.

Liabilities related to finance leases are effectively covered by the rights of the leased asset to be returned to the lessor in the event of default.

	2017	2016
Minimum future payments of finance leases, including non-accrued interest		
- Less than 1 year	$360,570	$407,866
- Over 1 year and less than 5 years	327,296	374,678
Non-accrued interest of finance leases	(51,354)	(79,008)
Present value of finance lease liabilities	$636,512	$703,536

The present value of finance lease liabilities is as follows:

	2017	2016
Less than 1 year	$327,017	$358,358
Over 1 year and less than 5 years	309,495	345,178
	$636,512	$703,536

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 26) 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 26) for each quarter.

   As of December 31, 2017 and until December 31, 2018, this factor cannot exceed 4.25 times. For each quarter of 2019, this factor cannot exceed 4.00 times; from the first quarter of 2020 and from there on this factor cannot exceed 3.50 times.

   * For Senior Notes, the leverage ratio cannot exceed 4.25 times.

Covenants contained in credit agreements establish certain obligations, conditions and exceptions that require or limit the capacity of the Company to:

- Grant liens on assets;
- Enter into transactions with affiliates;
- Conduct a merger in which the Company is dissolved, unfavorable sale of assets; and
- Pay dividends.

As of December 31, 2017 and as of the date of issuance of these consolidated financial statements, the Company and its subsidiaries complied satisfactorily with the covenants established in the credit agreements.

17. Employee benefits

Defined contributions plans:

The Company has a defined contribution plan. According to the structure of this plan, the reduction on labor liabilities is reflected progressively. The Company has established irrevocable trust funds for payment of the defined contribution plan. Due to the changes made in the 2014 tax reform, the Company interrupted the deposits to the trust; however, it has maintained this benefit and recognized labor obligations of $242,207 and $160,117 as of December 31, 2017 and 2016, 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:

	2017	2016
Obligations in the consolidated statement of financial position:		
Pension benefits [(1)]	$340,821	$302,399
Post-employment medical benefits	5,668	4,520
Defined contribution additional liability	242,207	160,117
Liability recognized in the consolidated statement of financial position	$588,696	$467,036
Charge in the consolidated statement of income for:		
Pension benefits	$ 46,757	$ 16,419
Post-employment medical benefits	454	537
	$ 47,211	$ 16,956
Remeasurements for accrued employee benefit obligations recognized in other comprehensive income for the year	$ 10,859	$ 25,167

(1) Up until February 15, 2016, the Company recognized seniority premiums.

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:

	2017	2016
Present value of obligations equal to the liability in the consolidated statement of financial position	$588,696	$467,036

The movement in the defined benefit obligation during the year was as follows:

	2017	2016
As of January 1	$306,919	$ 28,231
Current service cost	24,063	8,194
Financial cost	23,148	8,762
Remeasurements:		
Loss from changes in financial assumptions	10,859	25,167
Past service cost	5,168	2,719
Benefits paid	(23,016)	(3,444)
Liabilities acquired in merger	-	122,262
Modifications to the plan (*)	-	137,321
Reductions	(652)	(22,293)
As of December 31	$346,489	$306,919

(*) Effect arising from standardization of personnel benefits with those offered by Alfa.

The primary actuarial assumptions were as follows:

	2017	2016
Discount rate	7.25%	6.75%
Future wage increase	4.50%	5.25%
Medical inflation rate	6.50%	7.50%

The sensitivity analysis of the main assumptions for defined benefit obligations were as follows:

	Impact on defined benefit obligations		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.0%	$(22,105)	$25,104
Medical inflation rate	1.0%	$ (6,803)	$ 4,763

The above-mentioned sensitivity analyses are based on a change in an assumption, while all other assumptions remain constant. In practice, this is not likely to happen, and there may be changes in other correlated assumptions. When calculating the sensitivity of pension plans to principal actuarial assumptions, the same method has been used as if it involved calculation of liabilities pertaining to pension benefit plans recorded in the consolidated statement of financial position. The methods and type of assumptions used in preparing the sensitivity analysis suffered no changes with respect to the prior period.

18. Income taxes

a) Income taxes recognized in the consolidated statement of income:

	2017	2016
Current income tax	$ (75,827)	$ (97,048)
Deferred income tax	(312,650)	1,556,866
Prior years' adjustment	(40,007)	11,888
Income tax (expense) benefit	$(428,484)	$1,471,706

b) The reconciliation between the statutory and the effective income tax rates was as follows:

	2017	2016
Income (loss) before taxes	$ 490,656	$(5,070,968)
Equity in income of associates recognized using the equity method	-	5,189
Income (loss) before equity in associates	490,656	(5,065,779)
Statutory rate	30%	30%
Taxes at statutory rate	(147,197)	1,519,734
(Plus) less tax effect on:		
Tax effects of inflation	95,432	105,895
Non-deductibles	(268,136)	(249,064)
Other differences, net	(108,583)	95,142
Total income tax provision charged to income	$(428,484)	$ 1,471,706
Effective rate	87%	29%

c) The detail of deferred income tax asset (liability) is as follows:

	2017	2016
Tax loss carryforwards	$2,940,991	$2,797,686
Allowance for doubtful accounts	573,271	591,444
Property, plant and equipment	392,463	1,012,748
Provisions and other	219,427	481,128
Long-term debt	(546,735)	-
Intangible assets and other	168,294	153,908
Deferred tax asset	$3,747,711	$5,036,914
Property, plant and equipment	$ (4,433)	$ (54,416)
Telephone concession rights	-	(15,905)
Long-term debt	-	(549,342)
Intangible assets and other	(6,215)	(370,796)
Deferred tax liability	$ (10,648)	$ (990,459)

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 amount as of December 31, 2017 for which a tax asset was recognized amount to $9,803,303. The Company reserved tax losses of $1,086,631 as their realization was not considered likely.

Tax losses as of December 31, 2017 expire in the following years:

Year of expiration	Amount
2021	$ 645,823
2022	484,931
2023	622,543
2024 onwards	9,136,636
	$10,889,933

d) The tax charge/(credit) related to other comprehensive income is as follows:

	2017 Before taxes	2017 Tax charged (credited)	2017 After taxes	2016 Before taxes	2016 Tax charged (credited)	2016 After taxes
Effect of currency translation	$ (1,212)	$ -	$(1,212)	$ 14,556	$(4,367)	$ 10,189
Remeasurements of employee benefits	(10,859)	3,257	(7,602)	(25,167)	7,550	(17,617)
	$(12,071)	$ 3,257	$(8,814)	$(10,611)	$ 3,183	$ (7,428)

19. Shareholders' equity

At the Ordinary General Shareholders' Meeting on March 10, 2017, the shareholders agreed to decrease the Company's minimum fixed capital stock in the aggregate amount of $9,868,332 in order to absorb prior years' retained losses in the aggregate amount of $10,513,042, and having previously applied the additional paid-in capital of $644,710. This capital reduction was carried out without modifying or reducing the number of shares that represent the Company's capital stock.

On July 18, 2017 and in accordance with the resolutions adopted at the General Shareholders' Extraordinary Meeting held on January 15, 2016 relating to the merger of Onexa, S. A. de C. V., Axtel delivered to Alfa 1,019,287,950 Class "I" shares of Series "B", representing an additional ownership to Alfa of 2.50% in Axtel. The shares were previously held in Axtel's Treasury and their payment to Alfa cancelled the liability previously recognized by Axtel as consideration for the merger.

After the above-mentioned events, the Company's capital stock as of December 31, 2017 was $464,368 and was comprised of 20,249,227,481 Class "I", Series "B" common nominative shares, with no par value, entirely subscribed and paid in. As of that date, all series "B" shares issued by the Company were placed in a trust (CPO Trust).

Movements on the number of common shares of the Company during the year was as follows:

	Number of shares
Beginning balance	19,229,939,531
Issuance of shares to Alfa	1,019,287,950
Ending balance	20,249,227,481

In 2016, as a result of the merger mentioned in Note 2g), the following, among other matters, were approved: (i) cancellation of 287,141,239 Class "I" Series "B" shares of the Company, (ii) reissuance of 287,141,239 Class "I" Series "B" shares issued, but not subscribed, held by the Company's Treasury to be subscribed through the conversion of debentures convertible into shares under the terms of the decisions made at the extraordinary general stockholders' meeting on January 25, 2013; (iii) issuance of 97,750,656 Class "I", Series "A" shares and 9,571,214,832 Class "I", Series "B" shares worth $3,464,252, which were subscribed by Alfa, to be subscribed by the Onexa, S. A. de C. V. shareholders, according to their shareholding interest in said company, as part of the price for the merger, when the merger went into effect, and (iv) issuance of 4,279,126 Class "I" Series A shares and 1,015,008,824 Class "I", Series "B" shares, to held in the Company's treasury, free of preferred subscription rights, as these shares were issued as part of the price of the merger, to be delivered to Alfa.

If it becomes necessary, as per the adjustment that is the object of the transaction's Confirmatory Agreement, without the need to make additional contributions, and will be considered paid as per the terms of said agreement. The shares held in the Company's treasury cannot be represented or voted at shareholders' meetings, and will confer no corporate or economic rights.

Following is an analysis of the effect of the merger on the Company's shareholders' equity:

	Capital stock	Merger reserve	Total
Issuance of shares (see Note 2)	$3,464,252	$ 3,385,870	(*) $6,850,122
Difference between fair value and shareholders' equity of Onexa (*)	-	(3,482,023)	(3,482,023)
Transfer to reserve	(128,491)	128,491	-
Indemnity (see Note 2)	-	(983,747)	(983,747)
Financial liability (see Note 2)	-	(246,396)	(246,396)
	$3,335,761	$(1,197,805)	$2,137,956

(*) Corresponds to the fair value of shares issued for merger mentioned in Note 2g), taking into account the estimated unit price thereof at the date of the merger, which totaled $6,850,122.

In light of the above, through agreements adopted at the July 21, 2016 extraordinary general shareholders' meeting, the following matters among others, were approved: (i) the pertinent changes in capital stock arising from the conversions exercised or, if applicable, not exercised by the holders of the obligations convertible to shares; (ii) cancellation of 182'307,349 Class "I", Series "B" shares, not subscribed or paid in, which had been deposited in the Company's treasury to backup conversion of convertible debentures, the holders of which exercised no conversion rights in this regard, or consequently, the authorized capital stock reduction; and (iii) consolidation in a single series of all shares currently comprising the capital stock, through conversion of the Series "A" shares to Series "B" shares, with the same characteristics as those current outstanding. During 2016, the $90,000 reserve set up for the repurchase of shares was canceled. Moreover, during 2016, conversion options were exercised totaling $36,094 equivalent to 104,833,887 shares.

During the year ended December 31, 2016, the Company suffered net losses of $3,599,262. As of December 31, 2016, the Company showed an accumulated deficit of $8,486,561 and an excess of short term liabilities over current assets of $1,532,511 in 2016. As of December 31, 2016, the Company had lost more than two thirds of its capital stock, a legal cause for dissolution, which any interested party may request be declared by the courts. However, the principal shareholders have expressed their intention to support the Company so as to allow it to continue in existence as a going-concern. As of December 31, 2017, such situation no longer prevails in the Company considering the events described previously in this note.

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 20% 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, 2017, the tax value of the CUFIN and tax value of the Capital Contribution Account (CUCA from Spanish) amounted to $657,754 and $39,142,270, respectively.

In case of capital reduction, the procedures established by the Income Tax Law provide that any surplus of shareholders' equity be given over the balances of the fiscal accounts of the capital contributed, the same tax treatment applicable to dividends.

20. Expenses classified by their nature

Total cost of sales and selling and administrative expenses, classified by nature of the expense, were as follows:

	2017	2016
Service cost [(1)]	$ 3,947,167	$ 2,747,613
Employee benefit expenses (Note 23)	3,121,411	2,958,216
Maintenance	1,397,526	1,667,790
Depreciation and amortization	4,033,838	3,829,589
Advertising expenses	179,810	169,736
Energy and fuel consumption	344,548	273,001
Travel expenses	55,484	69,199
Operating leases	1,138,605	1,107,916
Technical assistance, professional fees and administrative services	28,068	126,934
Other	379,278	358,977
Total	$14,625,735	$13,308,971

(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.

21. Other income (expenses), net

	2017	2016
Merger expenses (*)	$(312,724)	$(835,200)
Disposals of property, plant and equipment due to damage and obsolescence	(11,724)	(52,795)
Gain (loss) on sale of property, plant and equipment (**)	841,437	(4,483)
Other income (expenses), net	1,309	54,749
Total other income (expenses), net	$ 518,298	$(837,729)

(*) As of December 31, 2017 and 2016, corresponds mainly to personnel compensation of $191,226 and $514,630; adoption of the retirement benefit plan of $0 and $137,300; and other merger expenses of $121,498 and $183,270, respectively.

(**) As of December 31, 2017, corresponds mainly to $840,400 gain on the sale of telecommunication towers to MATC Digital, S. de R. L. de C. V., subsidiary of American Tower Corporation.

22. Financial result, net

	2017	2016
Financial income:		
Interest income on short-term bank deposits	$ 39,286	$ 19,738
Other financial income	17,412	4,643
Total financial income	$ 56,698	$ 24,381
Financial expenses:		
Interest expense on bank loans	$(1,131,457)	$ (775,668)
Expense related to early cancellation award (Note 2h)	-	(758,064)
Financial assets at fair value applied to income	-	(225,121)
Interest expense on senior notes	(140,408)	(221,944)
Expenses related to other interest and commissions	(16,094)	(2,472)
Financial expenses related to employee benefits	(26,135)	(6,492)
Embedded derivative financial instrument	-	(71,318)
Other financial expenses	(332,933)	(41,021)
Total financial expenses	$(1,647,027)	$(2,102,100)
Exchange fluctuation gain (loss), net		
Gain on exchange fluctuation	$ 4,366,749	$ 210,124
Loss on exchange fluctuation	(3,718,469)	(2,988,804)
Exchange fluctuation gain (loss), net	$ 648,280	$(2,778,680)

23. Employee benefit expenses

	2017	2016
Salaries, wages and benefits	$2,592,738	$2,448,479
Social security fees	423,054	421,205
Employee benefits	24,063	8,914
Other fees	81,556	79,618
Total	$3,121,411	$2,958,216

24. Transactions with related parties

Balances with related parties as of December 31, 2017 and 2016, were as follows:

			December 31, 2017				
			Loans received from related parties				
	Accounts receivable	Accounts payable	Amount	Interest	Currency	Expiration date MM/DD/YY	Interest rate
Holding company		$ 2,952					N/A
Holding company		-	$ 413,161	$ 5,678	USD	15/07/18	3%
Holding company (1)		-	287,300	27,018	MXP	28/02/18	TIIE + 2.25%
Holding company (1)		-	287,300	27,018	MXP	28/02/19	TIIE + 2.25%
Holding company (1)		-	204,574	19,238	MXP	28/02/18	TIIE + 2.25%
Holding company (1)		-	204,574	19,238	MXP	28/02/19	TIIE + 2.25%
Holding company		-	219,600	-	MXP	28/02/19	TIIE + 2.25%
Affiliates	$31,702	17,384	2,127	304	USD		LIBOR 3M + 2.75%
Total	$31,702	$ 20,336	$1,618,636	$ 98,494			

(1) Indemnification (see Note 2).

			December 31, 2016				
			Loans received from related parties				
	Accounts receivable	Accounts payable	Amount	Interest	Currency	Expiration date MM/DD/YY	Interest rate
Holding company (2)		$ 246,396			MXP	14/07/17	N/A
Holding company		-	$413,280	$12,605	USD	15/07/17	3%
Holding company (1)		287,300	-	-	MXP	28/02/18	TIIE + 2.25%
Holding company (1)		287,300	-	-	MXP	28/02/19	TIIE + 2.25%
Holding company (1)		204,574	-	-	MXP	28/02/18	TIIE + 2.25%
Holding company (1)		204,574	-	-	MXP	28/02/19	TIIE + 2.25%
Affiliates	$20,949	8,034	2,228	229	USD		LIBOR 3M + 2.75%
Total	$20,949	$1,238,178	$415,508	$12,834			

(1) Indemnification (see Note 2).

(2) Merger-related financial liability (see Note 2).

Transactions with related parties for the years ended December 31, 2017 and 2016, 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, 2017			
	Income	Costs and expenses		
	Telecommunication services	Interests	Administrative services	Others
Holding company	$ -	$(104,204)	$ -	$ -
Affiliates	162,792	(81)	-	(38,320)
Total	$ 162,792	$(104,285)	$ -	$ (38,320)

	Year ended December 31, 2016			
	Income	Costs and expenses		
	Telecommunication services	Interests	Administrative services	Others
Holding company	$ -	$ (10,093)	$ (2,317)	$ -
Affiliates	131,060	(1,498)	-	(31,287)
Total	$ 131,060	$ (11,591)	$ (2,317)	$ (31,287)

Additionally, as mentioned in Note 2g, in 2016 the Company paid $809,793 corresponding to obligations related to the non-competition agreement.

For the year ended December 31, 2017, compensation and benefits paid to the Company's main officers totaled $112,048 ($245,506 in 2016), 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.

25. Contingencies and commitments

As of December 31, 2017, the following commitments and contingencies exist in relation to Axtel and its subsidiaries:

I. Contingencies

Disagreements related to Interconnection with other mobile operators.

a. Radiomóvil Dipsa, S. A. de C. V. (Telcel).

   i. The Company (Axtel and Avantel) signed transaction agreements with Telcel in 2015 that covered the period from January 1, 2005 to April 4, 2014, under which the parties agreed to terminate their disputes related to mobile interconnection rates generated during that period.

   ii. The corresponding tariffs to the interconnection mobile services provided by Telcel to the Company starting April 5, 2014 and from this date on, are subject to the gratuity conditions imposed by the article 131 section a) from the Federal Law of Telecommunications and Radiodifussion ("LFTR" from Spanish). Telcel challenged such condition, which was resolved by the Second Chamber of the Supreme Court of National Justice through sentence contained in the record 1100/2015 which declared unconstitutional the article without an order of application of retrospective charges from the Company.

   Therefore, as of December 31, 2017, 2016 and 2015, and from August 14 to December 31, 2014, the gratuity conditions prevailed based on the resolutions obtained in favor of the Company, without any existing contingency for the Company for the mentioned years.

   On January 2018, the Company was notified through an injunction issued by Telcel against the resulting tariffs in 2017 for the 2018 period from IFT in accordance to the resulting sentence provided by the Second Chamber referred above. For that matter, the Company and its legal advisors consider that the tariffs will prevail based on the resolutions obtained in favor of the Company, for which it has recognized the cost based on such tariffs and there are no provisions associated to this contingency.

b. Telefónica Group.

   i. The Company (Axtel and Avantel) signed transaction agreements in 2015 with Telefónica Group covering the period from 2005 to 2011, under which the parties agreed to terminate their disputes related to mobile interconnection rates generated during that period.

   ii. For the periods of 2012, 2013, 2014 and 2015, the Federal Telecommunications Institute (IFT) resolved interconnection disagreements to the Company, reducing the interconnection rates for termination services involving mobile service users. Given the results of other litigation procedures regarding interconnection rates in the mobile network, on February 2016, the Company and Telefónica Group signed agreements to terminate disputes related to interconnection rates.

   In the case of the subsidiary Alestra, severance agreements were signed with Grupo Telefónica for the period from January 1, 2007 to July 31, 2016, being them positively resolved for Alestra in courts for the period comprised from August 1 to December 31, 2016. The tariffs used for the compensation payment for such period are the ones the IFT has resolved in other instances and based on the court case results, no change is expected.

   Therefore, as of December 31, 2016 and 2015, the Company and its advisors consider that the rates will prevail as per the favorable resolutions obtained, as a result of which, the Company has recognized the cost based on such tariffs and there are no provisions associated to this contingency.

In January 2018, the Company was notified through an injunction issued by Telefónica against the resulting tariffs in 2017 for the 2018 period from IFT in accordance to the resulting sentence provided by the Second Chamber referred above. For that matter, the Company and its legal advisors consider that the tariffs will prevail based on the resolutions obtained in favor of the Company, for which it has recognized the cost based on such tariffs and there are no provisions associated to this contingency.

c. Iusacell Group (now AT&T).

   i. For the periods of 2012, 2013, 2014 and 2015, the IFT resolved interconnection disagreements to the Company, reducing the interconnection rates for termination services involving mobile service users.

   ii. In 2015, the Company (Axtel) signed transaction agreements for the aforementioned periods, except for 2012 and 2013, because the IFT's resolution that set the rates is under litigation at specialized courts. For such years, the Company obtained a favorable sentence in July 2016, as a result of which, the Second Specialized Collegiate Court confirmed the rates set by the IFT.

   iii. Iusacell Group contested the IFT's resolution for the 2015 period and in July 2016, the Company (Axtel) obtained a favorable first instance sentence confirming the tariffs. The appeal for review filed by Iusacell before the Specialized Collegiate Court was resolved in favor of the interest of the Company, prevailing the tariffs of the resolution.

   iv. The subsidiary Alestra has lawsuits for interconnection tariffs with Iusacell for the years 2012, 2013, 2014, which were resolved in favor of Alestra, prevailing the interconnection tariffs issued by IFT. Regarding 2015 with Iusacell and with ATT for 2015 and 2016, such lawsuits are under litigation at specialized courts.

Therefore, as of December 31, 2016 and 2015, the Company and its advisors consider that the tariffs pertaining to the IFT resolutions will prevail, as a result of which, the Company has recognized the cost based on such tariffs and there are no provisions associated to this contingency.

d. Disagreements on interconnection with Telmex & Telnor.

   i. For the years 2009, the Company (Axtel and Alestra in different trials), 2012, 2013 and 2014 (Axtel-Avantel) and 2013 (Alestra) obtained final favorable sentences confirming termination long-distance calls tariffs of the Company towards Telmex which the Federal Telecommunications Commission ("Cofetel") had established. For the years 2009, 2012, 2013 and 2014 Telmex placed litigation procedures to contest the tariffs established by Cofetel.

   ii. Additionally, there is a disagreement between Telmex and Avantel regarding the tariffs for terminating long-distance calls that the Cofetel resolved in favor of Avantel for the year 2009, approving a tariff reduction. Telmex contested this resolution at the Court, and the related sentence is expected to be handed down shortly.

   iii. On May 2011, Cofetel also approved a reduction in the tariffs for termination of long-distance calls for 2011. Telmex contested this resolution before the SCT; however, the appeal was dismissed. Telmex filed a new appeal with the Federal Court of Justice for Administrative Matters, sentence still pending.

   iv. On August 2015, the IFT established the interconnection tariffs that Telmex will pay to the Company for local origination. Telmex obtained sentence on first instance protecting them with the 20th transitional article of the Telecommunications and Radiodifussion Federal Law (LFTR) (for two different tariffs for each period). Telmex presented a revision which was sent to the Supreme Court of National Justice to determine the constitutionality of such transitional article, the authority conceded the protection to Telmex and now it is under specialized courts for its definite result.

   v. For the 2015 period, the IFT set the interconnection rates to be paid by Telmex to the Company for fixed termination. Telmex contested such resolution and the gratuity imposed by article 131 section a) of the LFTR regarding termination in its network. No ruling has yet been handed down by the Supreme Court in this regard.

vi. Subsidiary Alestra is involved in litigation with Telmex for interconnection tariffs applicable from 2008 to 2013, except 2009, as Telmex contested the reduction of tariffs set by the Cofetel. There is a trust with BBVA Bancomer (as trustee) to guarantee payment of fixed interconnection services in the dispute applicable to 2008. This trust agreement was amended to include the amounts in dispute for 2009 and 2010. On April 2013, Alestra obtained a favorable sentence for 2009, and obtained a refund of the amount deposited in the trust for that year, plus interest, for a total of $290.6 million pesos, for a resulting balance as of December 31, 2016 of $153.0 million. (See Note 7).

vii. Since April 2012, Alestra and Telmex resumed negotiations and given the most recent and reliable information and the market conditions, the resale interconnection tariffs have changed prospectively based on Alestra Management's analysis and judgment. Alestra continues its negotiations with Telmex and the parties are expected to reach an agreement in the near future.

viii. On April 2015, the IFT set interconnection tariffs to Alestra for termination of long distance in the Telmex network applicable to 2013 and 2015. Telmex contested in a protection trial which was resolved in favor of the Company. Alestra obtained favorable firm sentence for the year 2013. The IFT resolved interconnection tariffs for 2015, which Telmex contested before specialized courts, and were definitely resolved by denying the protection to Telmex in favor of Alestra.

ix. Under the LFTR, from August 13, 2014 and until December 31, 2017, the preponderant economic agent (AEP in Spanish) in the telecommunications sector, Telmex and Telcel are prohibited to charge any interconnection tariff for the termination of calls ending in their network. Telcel and Telmex contested such condition that was resolved by the Second Chamber of the Supreme Court of National Justice through sentence contained on the file 1100/2015, declaring unconstitutional the article without the application of retrospective charges in prejudice of the Company. Only the protection agreement referred to Telcel has been resolved.

Therefore, as of December 31, 2017, 2016, 2015 and from August 14 to December 31, 2014 the gratuity conditions prevailed based on the resolutions obtained in favor of the Company, without any contingency existing for the years in prejudice of the Company.

x. During 2016, the IFT started a revision process of the preponderance measurements imposed to América Móvil as holding company of Telmex and Telcel. From this revision, the agreement P/IFT/EXT/270217/119 was issued by which the IFT modifies and adds the measurements imposed to the AEP in 2014 which tends to generate a sector where competition conditions exist in the telecommunications sector. As of December 31, 2017, the preponderant agent status of Telmex, Telnor and Telcel wasn´t modified.

As of the date of issuance of the consolidated financial statements, the Company and its advisors consider that the tariffs pertaining to the IFT and Cofetel resolutions will prevail as per the favorable resolutions obtained by the Company, and as a result, the Company has recognized the cost based on such tariffs and there are no provisions related to this contingency. Likewise, the process for review of the preponderance measures is still ongoing.

Litigation between Axtel and Solution Ware Integración, S. A. de C. V. ("Solution Ware")

i. Axtel and Solution Ware participated in seven projects with the Government of Nuevo León, the Department of Labor and Social Welfare, the Department of Social Development, the National Population Registry, the National Forest Commission, Seguros Monterrey and the Government of Tamaulipas. To date, Solution Ware has filed a number of ordinary commercial lawsuits against Axtel, for payment of a number of purchase orders for administrative services, as well as interest, damages and prejudice, as well as legal costs and expenses. As of the date of these consolidated financial statements, Solution Ware has demanded, via commercial notary public, payment of $91,776 and $US12,701.

Currently, only the trial related to the contract of the Department of Labor and Social Welfare has been resolved in first instance, which absolved Axtel from the social benefit claimed.

As of the date of issuance of the consolidated financial statements, the Company and its advisors consider there is no real probability that these lawsuits will prosper and therefore, no provisions were recognized for this contingency.

While the results of the disputes cannot be predicted, as of December 31, 2016, the Company does not believe there are any actions to be applied, or threats, claims or legal procedures against the Company, which, if resolved adversely for the Company, would significantly damage, whether individually or in the aggregate, its financial position and/or operating results.

Other contingencies

The Company is involved in a number of lawsuits and claims arising from the normal course of its operations, which Management does not expect will have a significant adverse effect on its financial position or results of future operations. Provisions were set up in connection with these contingencies.

II. Commitments

The Company has commitments related to lease agreements, mainly consisting of offices, that qualify as operating leases.

The aggregated minimum future payments, corresponding to non-cancellable operating leases are as follows:

Within 1 year	\$1,063,034
After 1 year but not exceeding 5 years	3,424,198
After 5 years	3,796,470

26. Financial information by segments

Currently, the information used in strategic decision making is reported to the Chief Executive Officer based on three operating segments. The approach of the three operating segments is as follows:

The Massive operating segment offers the consumer and small-business markets communication products and services.

The Business operating segment offers communication services and added value services, such as information, data and Internet technologies, managed through the Company's network and infrastructure, both for multinational companies and international and national businesses.

The Government operating segment offers communication services and added value services, such as information, data and Internet technologies, managed through the Company's network and infrastructure, for the federal, state and municipal governments.

Aside from the three operating segments focusing on customers, the Company's remaining operations are included in the "Unallocated expenses" category to be applied to the Company's consolidated income. Such category includes expenses related to the centralized functions, including acquisitions, chain of supply and the Company's management.

These operating segments are managed separately, as the products and services offered and the markets where they are located are different. Resources are allocated to the operating segments considering the strategies defined by the Company's Management. Transactions between operating segments are conducted at market values.

The operating segments' performance is measured on the basis of the Business Unit Contribution (BUC) defined as each segment's operating profit, including sales, costs per segment and the segment's direct expenses, as included in the internal financial reports reviewed by the Chief Executive Officer.

The Company defined adjusted EBITDA as the result of adding depreciation and amortization, and impairment of non-current assets, to the operating income (loss). This is considered a useful measurement of the business's operating performance, as it provides a significant analysis of the commercial performance, by excluding specific items reported separately due to the nature or incidence. Interest income or expenses are not allocated to the reporting segments, as this activity is handled globally by Alfa's central treasury.

When projects are not directly attributed to a particular operating segment, the capital expense is allocated to each segment based on the rate of future economic benefits estimated as a result of the capital expense.

Following is the consolidated financial information of these operating segments:

I. Analytical information per segment

	2017			
	Massive	**Business**	**Government**	**Total**
Sales by segment	$2,996,184	$9,945,476	$2,571,430	$15,513,090
Service cost	(506,965)	(2,029,522)	(1,410,680)	(3,947,167)
Expenses	(1,064,572)	(1,039,486)	(131,260)	(2,235,318)
Business unit contribution (BUC)	1,424,647	6,876,468	1,029,490	9,330,605
	48%	69%	40%	60%
Unallocated expenses				(3,450,742)
Adjusted EBITDA without merger expenses				5,879,863
Merger and other operating expenses				(428,648)
Adjusted EBITDA				5,451,215
Impairment of non-current assets				(11,724)
Depreciation and amortization				(4,033,838)
Operating income				1,405,653
Financial result, net				(914,997)
Equity in income of associates				-
Income taxes				(428,484)
Consolidated net income				62,172

	2016			
	Massive	**Business**	**Government**	**Total**
Sales by segment	$3,129,580	$8,783,843	$2,023,897	$13,937,320
Service cost	(436,820)	(1,579,947)	(730,846)	(2,747,613)
Expenses	(1,098,137)	(905,408)	(242,768)	(2,246,313)
Business unit contribution (BUC)	$1,594,623	$6,298,488	$1,050,283	$8,943,394
	51%	72%	52%	64%
Unallocated expenses				(4,435,190)
Adjusted EBITDA without merger expenses				4,508,204
Merger and other operating expenses				(835,200)
Adjusted EBITDA				3,673,004
Impairment of non-current assets				(52,795)
Depreciation and amortization				(3,829,589)
Operating loss				(209,380)
Financial result, net				(4,856,399)
Equity in income of associates				(5,189)
Income taxes				1,471,706
Consolidated net loss				(3,599,262)

II. General information

a. Sales by service:

	2017	2016
Voice	$ 3,865,353	$ 4,236,979
Administered networks	4,045,312	3,046,351
Internet data	4,896,642	4,209,462
Video	533,054	499,726
Administrative applications	230,344	215,042
Hosting	656,286	586,149
System integration	529,882	573,475
Security	390,899	322,680
Cloud services	186,180	125,474
Other services	179,138	121,982
Total	$15,513,090	$13,937,320

b. Sales per geographic zone:

	2017	2016
Mexico	$15,439,019	$13,865,436
Outside Mexico	74,071	71,884
Total	$15,513,090	$13,937,320

27. Subsequent events

In preparing the consolidated financial statements, the Company has evaluated events and transactions for recognition or disclosure subsequent to December 31, 2017 and through January 31, 2018 (date of issuance of the consolidated financial statements), and has concluded there are no significant subsequent events that affect the consolidated financial statements.

28. Authorization to issue the financial statements

On January 31, 2018, 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.

EXHIBIT C

ANNUAL REPORT OF THE ACTIVITIES OF THE AUDIT AND CORPORATE PRACTICES COMMITTEE

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

axtel

INFORME ANUAL DEL COMITÉ DE AUDITORÍA Y PRÁCTICAS SOCIETARIAS

21 de febrero de 2018

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 2017 y eventos subsecuentes a la fecha.

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 2016 y 2017, 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 10 de marzo de 2017 y 27 de febrero de 2018 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 realizó licitación para la designación del auditor externo de Axtel, obedeciendo a la aplicación de las mejores prácticas administrativas, a

nuevos esquemas de revisión y a mejores costos competitivos, proponiendo después del análisis, el recomendar al Consejo de Administración, la designación como nuevo auditor externo a la firma Galaz, Yamazaki, Ruiz, Urquiza, S.C. ("Deloitte");

2. Se analizaron los programas de auditoría presentados por los auditores externos;

3. Se analizaron los servicios adicionales o complementarios proporcionados por el despacho Deloitte, principales auditores externos, 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 estado que guarda el sistema de control interno, siendo informados de los programas y desarrollo de los planes y programas de trabajo de auditoría interna y de auditoría externa;

6. Se analizaron los programas de auditoría interna y los resultados de dichos programas durante los ejercicios 2016 y 2017, incluyendo las auditorías a los negocios, a los proyectos de inversión, las especiales, las relativas a tecnologías y sistemas de información, así como las áreas de oportunidad para mejorar la efectividad de los programas y políticas de control interno;

7. Se analizaron las descripciones y efectos de las modificaciones a las políticas contables aprobadas; y

8. Se revisó y analizó con los auditores externos de la Sociedad, el programa de auditoría externa del ejercicio 2017, así como el programa de auditoría interna correspondiente a ese mismo ejercicio.

IV. **Actividades en relación a las operaciones de la Sociedad y sus subsidiarias.**

1. Se analizó el ajuste en la participación de Alfa, S.A.B. de C.V. ("Alfa") en el capital social de Axtel, efectuado el 17 de julio de 2017, como parte de la contraprestación acordada en el convenio de fusión (Axtel/Onexa) y aprobada en la Asamblea General Extraordinaria de accionistas de la Sociedad, celebrada el día 15 de enero de 2016 ("acuerdos de fusión"), ajuste equivalente al 2.50% del capital social. Como consecuencia de lo cual, la tenencia accionaria de Alfa asciende a partir de julio de 2017, al 52.78% del capital social de Axtel;

2. Se analizaron y aprobaron los diversos registros contables derivados de los programas de fiscalización implementados por las autoridades fiscales del país;

3. Se analizó la fusión de la subsidiaria Alestra, S. de R.L. de C.V. en Axtel; y

4. 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

axtel

INFORME ANUAL DEL COMITÉ DE AUDITORÍA Y PRÁCTICAS SOCIETARIAS

21 de febrero de 2017

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 nombre y representación de los consejeros integrantes del Comité de Auditoría y Prácticas Societarias de Axtel, S.A.B. de C.V. ("Axtel" o la "Sociedad"), nos permitimos presentarles un reporte sumario de las actividades desempeñadas por dicho Comité durante el ejercicio social terminado el 31 de diciembre de 2016 y eventos subsecuentes a la fecha.

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 2015 y 2016, 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 la Asamblea General Ordinaria anual de Accionistas;

2. Se analizó el proyecto de aplicación de resultados del ejercicio social 2016, presentado al Consejo de Administración para su proposición a la Asamblea General Ordinaria anual de accionistas correspondiente;

3. Se revisó y analizó con los auditores externos de la Sociedad el estado que guarda el sistema de control interno, siendo informados de los programas y desarrollo de los planes y programas de trabajo de auditoría interna y de auditoría externa. Se determinó que se cumple con la efectividad requerida para que la Sociedad y sus subsidiarias operen en un ambiente general de control, y no se detectaron deficiencias o desviaciones materiales; y

4. Se analizó el plan de auditoría, así como las políticas y prácticas de gobierno corporativo. Se conoció de los planes de la administración de la Sociedad para homologar las políticas, procedimientos y criterios de control interno.

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; y

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 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 revisaron los honorarios del auditor externo PricewaterhouseCoppers;

2. Se analizaron los servicios adicionales o complementarios proporcionados por el despacho de auditoría externa, no encontrándose situaciones que comprometan su independencia;

3. Se evaluó el desempeño de la firma de auditoría externa, así como el de la persona responsable de la misma;

4. 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; y

5. Se analizaron las descripciones y efectos de las modificaciones a las políticas contables aprobadas.

Atentamente,

Bernardo Guerra Treviño
Comité de Auditoría y Prácticas Societarias