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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, 2022

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. 454,620,882.31 represented by 19,824,236,117 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 28, 2023.

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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:

"Alestra"	Commercial name to serve the enterprise and government segment, seeking to accelerate the adoption of new generation services that contribute to the digital transformation and evolution of their businesses. Its portfolio includes connectivity services, value-added solutions such as managed networks and systems integration, and information technology (IT) such as cloud services, collaboration and cybersecurity, among others. 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.
"ALFA"	Alfa, S.A.B. de C.V.
"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, 2022 and 2021 and as of and for the years ended on December 31, 2021 and 2020.
"Avantel"	Both Avantel, S. de R.L. de C.V. and Alestra Innovación Digital, S. de R.L. de C.V.
"Avantel Infraestructura", "Alestra Innovación Digital"	Avantel Infraestructura, S. de R.L. de C.V., which changed its name to Alestra Comunicación, S. de R.L. de C.V.; and afterwards to Alestra Innovación Digital, S. de R.L. de C.V.
"Axtel", "Company", "Issuer"	Means Axtel, S.A.B. de C.V., together with its subsidiaries, except when in context the term Axtel refers only to Axtel, S.A.B. de C.V.
"Axtel Networks", "Axnet"	Commercial name to serve wholesale infrastructure customers; provides connectivity solutions through fiber optics that allow satisfying the requirements of international and national operators, data center and tower operators, Internet giants, and content and cloud providers.
"Banamex"	Banco Nacional de México, S.A. member of Grupo Financiero Banamex and its affiliates.
"Bancomext"	Banco Nacional de Comercio Exterior, S.N.C.
"BBVA Mexico" or "BBVA"	BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer.
"Bestel"	Bestel, S.A. de C.V., a telecommunications and IT services company, subsidiary of Televisa
"BMV" or "Stock exchange"	Bolsa Mexicana de Valores, S.A.B. de C.V. (*Mexican Stock Exchange)*.
"Cablecom"	Grupo Cable TV, S.A. de C.V.

"Cablemás"	Cablemás, S.A. de C.V.
"Cablevisión"	Empresas Cablevisión, S.A.B. de C.V.
"Central Switchboard"	Equipment that frees voice data and sets up connections to establish a call.
"Circular Letter"	Means the general provisions that apply to the Issuers of securities and to other participants of the securities market, issued by the CNBV and published in the Official Federal Gazette on Wednesday March 19, 2003, as updated from to time to time.
"CNBV"	Comisión Nacional Bancaria y de Valores. *(Mexican Banking and Securities Commission)*
"CO_2e"	CO2 equivalent (carbon dioxide), a universal measure to express in terms of CO2 the global warming level that each of the greenhouse gases has.
"Controladora Axtel"	Controladora Axtel, S.A.B. de C.V., a variable capital stock corporation, which, due to the Spin-off, is the controlling entity of Axtel. Such society is in the process of obtaining the corresponding authorizations from the *CNBV* and *BMV* for the shares to be registered in the *RNV* and listed on the *BMV* for its trading in Mexico.
"Covid-19"	Infectious disease caused by the most recently discovered SARS-CoV-2 virus. This new virus and disease were unknown before the outbreak began in Wuhan, China, in December 2019 (Source: World Health Organization).
"CPOs", "AXTELCPO"	Ordinary Participation Certificates, which are non-amortizable securities, issued under the CPOs Trust, each of which represents, 7 Series "B" Class "I" Shares of Axtel's capital stock.
"CPOs Trust"	It means the Irrevocable Trust Agreement No. 80471 named AXTEL CPO's, dated November 30, 2005, entered between the Company, as settlor and Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, Fiduciary Division, as trustee, the purpose of which is, among others, to establish a mechanism that allows the allocation of Shares Series B into the trust for the issuance of CPOs that are eligible for trading in the BMV.
"CPO Trustee"	Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, Fiduciary Division as trustee of the CPOs Trust.
"Data Center"	A facility composed of networked computers and storage, used to organize, process, store and disseminate large amounts of data.
"Dollars", "US $"	Current currency of the United States of America
"EBITDA"	Defined by the Company as the result of adding to the operating income (loss), the depreciation, amortization and impairment of assets.
"Ethernet"	IEEE 802.3 protocol, a network protocol that controls how data is transmitted over a LAN.
"Flo Networks"	Formerly called Transtelco, a company that provides managed voice and data services over a fiber optic network between the US and Mexico.
"GHz"	Gigahertz (Thousands of millions of cycles per second) Frequency relative to a time unit
"ICT"	Information and Communication Technologies
"IFRS"	International Financial Reporting Standards

"IFT"	Instituto Federal de Telecomunicaciones *(Federal Telecommunications Institute)*, industry regulator since September 2013.
"Indeval"	S.D. Indeval Institución para el Depósito de Valores, S.A. de C.V.
"INEGI"	Instituto Nacional de Estadística y Geografía *(National Institute of Statistics and Geography of Mexico)*
"IP"	Internet Protocol
"IT"	Information Technologies
"KIO"	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.
"Mass Market Segment"	Business segment consisting of residential customers and micro / small businesses, to which Axtel provided voice, data and video services (pay television) through its fiber network (FTTx) or wireless network. On December 17, 2018, Axtel sold most of this segment to Televisa and on May 11, 2019, Axtel sold the rest to Megacable.
"Megacable"	Megacable Holdings, S.A.B. de C.V. including subsidiary and affiliate companies.
"Merger between Alestra and Axtel"	Means the merger between Axtel and Onexa that became effective on February 15, 2016, as of which date Alfa became the majority owner of Axtel and Alestra became a wholly owned subsidiary of Axtel.
"México"	United Mexican States.
"MHz"	Megahertz. Frequency in millions of cycles per Second. In radio, it refers to the number of oscillations of electromagnetic radiation per second.
"NAVE"	Axtel's corporate incubator focused on identifying and developing start-ups and scale-ups.
"Onexa"	Onexa, S.A. de C.V., the parent company of Alestra, which merged into Axtel, S.A.B. de C.V. on February 15, 2016. Prior to the Merger between Alestra and Axtel, Onexa was a wholly owned subsidiary of Alfa.
"pesos", "M.N.", "$", or "Ps."	Current legal currency in Mexico
"POPs"	Point of Presence, strategic point (physical place) where services are concentrated, it may have electronics and/or interconnections with other facilities or operators.

"Preponderant Economic Agent, (*AEP*)"	On March 6, 2014, the Plenary Session of the Federal Telecommunications Institute determined as a preponderant economic agent in the telecommunications sector the companies América Móvil S.A.B. de C.V.; Teléfonos de México, S.A.B. de C.V. (Telmex); Teléfonos del Noroeste, S.A. de C.V. (Telnor); Radiomóvil Dipsa, S.A.B. de C.V.; (Telcel), Grupo Carso, S.A.B. de C.V.; y Grupo Financiero Inbursa, S.A.B.
"SDWAN"	Software-Defined Wide Area Network. The application of software-based network technologies that virtualize WAN connections.
Senior Notes 2024	Axtel notes with a coupon of 6.375% maturing in 2024, with a balance as of the date of this Annual Report of US$402,223,000.
"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.
Spin-off	By means of an Extraordinary General Shareholders' Meeting of Alfa, S.A.B. de C.V. dated on July 12, 2022, the partial spin-off of Alfa, S.A.B. de C.V. took place; which, without extinguishing, transfers in block certain assets and capital to the spun-off company, Controladora Axtel, S.A.B. de C.V.; including the entire share ownership of Alfa, S.A.B. de C.V. to the capital stock of Axtel, S.A.B. de C.V. Controladora Axtel is conducting the corresponding authorizations to register its shares in the RNV and be listed on the BMV for its trading in Mexico.
"Telcel"	Radiomóvil Dipsa, S.A. de C.V. and/or affiliated companies that all together are subsidiaries of América Móvil, S.A.B. de C.V.
"Telefónica Movistar", "Grupo Telefónica"	The following companies, together o individually: Pegaso PCS, S.A. de C.V., Baja Celular Mexicana, S.A. de C.V., Pegaso Comunicaciones y Sistemas, S.A. de C.V., Celular de Telefonía, S.A. de C.V., Telefonía Celular del Norte, S.A. de C.V., Movitel del Noroeste, S.A. de C.V. and Grupo de Telecomunicaciones Mexicanas, S.A de C.V.
"Televisa"	Grupo Televisa S.A.B., including subsidiary and affiliate companies.
"Telmex"	Teléfonos de México, S.A.B. de C.V., including subsidiary and affiliate companies that are considered subsidiaries of America Móvil
"Telnor"	Teléfonos del Noroeste, S.A. de C.V.
"TIIE"	Interest rate applicable to credit operations in Mexico. (Tasa de Interés Interbancaria de Equilibrio).
"RGUs"	Revenue Generating Units
"VPN"	Virtual Private Network

1.2) <u>Executive Summary</u>

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 integrated Information and Communication Technology (ICT) solutions to support its clients in the process of evolution towards the digital transformation of their businesses and in the creation of communication networks, through the brands Alestra and Axtel Networks or Axnet.

Axtel Networks or Axnet, which participates in the market as a neutral operator, provides connectivity solutions through fiber optics to wholesale customers, including national and international, fixed and wireless operators, data center and tower operators, internet giants, as well as to Alestra. Axnet's service portfolio includes connectivity services such as fiber to the tower, fiber to the data center, dark and lit fiber, spectrum and IP transit, among others.

On the other hand, Alestra works as a technological partner of more than 12,000 business clients. Its client base includes small, medium and large companies, corporations, financial institutions and government entities, seeking to accelerate the adoption of new generation services that contribute to the digital transformation and evolution of their businesses. Its portfolio includes connectivity services, value-added solutions such as managed networks and systems integration and information technology (IT) such as cloud services, collaboration and cybersecurity, among others.

Axtel considers it has the second largest fiber network in Mexico, with an infrastructure of approximately 48,800 kilometers, 23,800 kilometers of national transportation network (including 13,400 kilometers of long-term capacity agreements) and 25,000 kilometers of metropolitan rings, which provide Ethernet access to 72 cities. In addition, it has concessions in the spectrum bands of 7, 10.5, 15, 23 and 38 GHz. Axtel provides its services through an extensive hybrid, wired and wireless local access network, designed to optimize capital investments. Current options for the last-mile access for the Company's customers include fiber optic links through its metropolitan rings and point-to-point wireless technologies.

Axtel's vision is to be the best alternative in the digital experience through innovation to create value and its mission is to enable organizations to increase their productivity through digitization. The Company's strategic objective is to be the main enabler of digital transformation in Mexico and to be the world-class leading neutral operator of fiber optic networks in Mexico.

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

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

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

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

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

On July 12, 2022, ALFA's shareholders approved the spin-off of its entire share ownership in Axtel, to a new entity called Controladora Axtel which will be listed on the Mexican Stock Exchange. As of December 31, 2022 and the date of this Annual Report, Controladora Axtel is in the process of obtaining from the National Banking and Securities Commission (CNBV), authorization for registration in the National Securities Registry (RNV), to be eligible to be listed on the Stock Exchange. ALFA shareholders will receive one share of Controladora Axtel for each of their ALFA shares, in addition to retaining their participation in ALFA's capital stock.

With respect to the twelve-month period ended December 31, 2022, Axtel generated revenues of Ps. 10,480 million and registered an operating income and EBITDA of Ps. 174 million and Ps. 3,011 million, respectively. In 2022, 53% of the Flow came from Alestra, while 47% came from Axnet. Axtel registered a loss before taxes of Ps. 87 million and a net loss of Ps. 39 million. At the end of 2022, the Company had cash for Ps. 1,543 million and total debt (including accrued interest) of Ps. 11,881 million.

During 2021, Axtel's revenues reached Ps. 11,389 million and recorded an operating income and EBITDA of Ps. 292 million and Ps. 3,793 million, respectively. In 2021, 41% of the Flow came from Alestra, while 59% came from Axnet. Axtel recorded a loss before taxes of Ps. 1,149 million and a net loss of Ps. 797 million. At the end of 2021, cash totaled Ps. 1,614 million and total debt (including accrued interest) reached Ps. 13,344 million.

Finally, during 2020, Axtel's revenues reached Ps. 12,356 million, operating profit and EBITDA totaled Ps. 2,773 million and Ps. 6,327 million, respectively, which include Ps. 2,021 million of benefit from the data centers divestment. Excluding the benefit from the divestment of data centers, 45% of EBITDA arose from Alestra, while 55% came from Axnet. Axtel recorded a pre-tax profit of Ps. 1,154 million, and a net profit of Ps. 361 million. At the end of 2020, cash totaled Ps. 3,124 million, restricted cash totaled Ps. 262 million, which was released in January 2021 and total debt (including accrued interest) reached Ps. 15,271 million.

The following tables contain a summary of the consolidated financial information as of December 31, 2022, 2021 and 2020 and for the years ending on those dates, derived from the information contained in the Audited Financial Statements attached to this Annual Report.

(in million pesos)	Years ended December 31,		
	2022	**2021**	**2020**
Income Statement			
Revenues	10,479.6	11,389.5	12,356.0
Operating costs and expenses (1)	(10,305.7)	(11,097.2)	(9,583.5)
Operating Income	173.9	292.2	2,772.5
Interest expense, net	(772.2)	(1,163,8)	(1,339.1)
Exchange gain (loss), net	511.3	(277.6)	(385.3)
Change in fair value of financial assets, net	—	—	105.8
Profit (Loss) before taxes	(87.0)	(1,149.1)	1,153.9
Income Taxes	48.2	352.4	(792.6)
Net Profit (loss)	(38.8)	(796.7)	361.3
(Loss) Profit per share:			
(Loss) Profit per basic share: Basic and diluted:	(0.002)	(0.040)	0.018
Weighted average of common outstanding shares (in millions):	19,824.2	19,829.5	19,987.6
Dividends decreed per share	—	—	—
Other Financial information:			
Depreciation, amortization and impairment of long-life assets	2,837.1	3,500.3	3,554.5
EBITDA (2)	3,011.0	3,792.5	6,327.0
EBITDA as percentage of revenues	28.7%	33.3%	51.2%

(1) Cost of sale and services, plus administrative and selling expenses, plus depreciation and amortization, plus other operating income (expenses).

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

(in million pesos)	Years ended December 31,		
	2022	**2021**	**2020**
Statement of Cash Flows:			
Net Cash Flow from:			
Operating Activities	3207.9	3,291.6	4,207.8
Investing Activities..........................	(1,207.3)	(1,268.3)	729.1
Financing Activities	(2,040.3)	(3,601.6)	(2,600.5)
(Net decrease) Net increases in cash or cash equivalents	(39.7)	(1,578.4)	2,336.4

(in million pesos)	Years ended December 31,		
	2022	**2021**	**2020**
Balance Sheet:			
Cash and equivalents.........................	1,542.8	1,613.7	3,124.0
Net working capital (1)........................	183.1	236.0	(215.7)
Total assets..	18,351.4	19,974.5	23,703.8
Total debt	11,881.1	12,827.4	15,271.3
Total liabilities	15,501.0	17,104.6	20,208.6
Total stockholder's equity	2,850.4	2,869.9	3,495.3
Net assets (2)	9,227.2	10,369.0	11,361.9
Capital common stock	454.6	464.4	464.4
Weighted average of outstanding shares (in millions)	19,824.2	19,829.5	19,987.6

(1) Net Working Capital is calculated by subtracting cash and equivalents, accounts payable, payable taxes and other accounts payable from current assets.

(2) Net assets is calculated by adding net working capital to property, plant and equipment.

Regarding the performance of the CPO, as of December 31, 2022, 2021 and 2020, the Company's share (AXTELCPO) closed at Ps. 1.36, Ps. 3.87 and Ps. 6.23 respectively. See details throughout the years in Section *5.2) Stock Performance in the Stock Market*.

At the date of this Annual Report, the Company has a total of 19,824,236,117 ordinary, nominative, without par value Series "B" Class "I" shares, fully subscribed and paid; being Controladora Axtel, a company under control by ALFA entitled with 53.9% of the capital stock. At present, Axtel's capital stock does not have issued or subscribed shares in its variable part.

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

1.3) Recent Relevant Events

2023

Bancomext Credit

Likewise, on January 5, 2023, Axtel signed an agreement to refinance its long-term facility with Bancomext for Ps. 3,026 million, an interest rate of TIIE + 2.1% maturing in 2028 and an average life of 8 years.

Export Development Canada (EDC) Credit

On January 26, 2023, the Company executed a bilateral loan with Export Development Canada (EDC) for US$100 million, for a 5 year-term. The use and availability of resources is to refinance its 2024 Senior Notes, the outstanding balance of such credit as of March 31, 2023, was US$40 million.

Tender Offer Senior Notes 2024

On January 17, 2023, Axtel announced that it initiated an offer to purchase up to US$75 million aggregate principal amount of its Senior Notes due 2024. On January 31, 2023, Axtel announced the results of the early tender deadline, whereby Notes tendered by holders and accepted by the Company was US$77.7 million. In addition, the Company increased the tender cap from US$75 million to US$120 million and extended the early tender deadline to February 13, 2023, which is also the expiration time. As of February 13, 2023, the 2024 Senior Notes tendered and accepted for purchase was US$88.6 million, leaving an outstanding balance of US$313.6 million.

Annual General Ordinary Shareholders' Meeting on March 7, 2023

At the General Ordinary Shareholders' Meeting held on March 7, 2023, it was approved, among other issues, that the maximum number of resources to be allocated for own shares repurchasing during fiscal year 2023 would be Ps. 100 million.

Extraordinary General Shareholders' Meeting on March 7, 2023

In the Extraordinary Shareholders´ Meeting held on March 7, 2023, the merger by incorporation of the subsidiaries *Alestra* Innovación Digital, S. de R.L. de C.V., Estrategias en Tecnología Corporativa, S.A. de C.V. and Allied Inmuebles, S.A. de C.V., into Axtel, S.A.B. de C.V. ("Axtel") was approved. The former disappearing as merged companies, and Axtel subsisting as merging company.

2022

Spin-off of ALFA's share ownership in Axtel and creation of Controladora Axtel

On July 12, 2022, ALFA's Shareholders' Meeting approved the spin-off of its entire share ownership in Axtel, through which a variable capital stock corporation was incorporated as a spun-off company (“Controladora Axtel”), from which its shares will be registered in the RNV and listed on the Stock Exchange for trading in Mexico once the corresponding authorizations are obtained from the CNBV and BMV.

Appointment of new CEO

The Company announced that Armando de la Peña González was appointed as CEO effective May 1, 2022.On April 26th, Axtel’s Board of Directors unanimously approved this appointment._Eduardo Escalante Castillo, Axtel’s Acting CEO since January 22, 2021, returned full-time to his responsibilities as Alfa’s CFO.

Impairment in investment in shares and accounts receivable of Altán Redes S.A.P.I. de C.V. (“Altan”)

The Company has a share ownership equivalent to 0.42% of Altán's capital stock as of December 31, 2022. Likewise, Axtel is Altán's provider of telecommunications and IT services.

On November 12, 2021, Altán was declared in *Concurso Mercantil* and as of the day the verdict was published in the Official Gazette of the Federation, Altán had an initial conciliation period of 185 calendar days that could be extended for two more periods of 90 calendar days. In November 2022, Altán announced that the *Juzgado Primero de Distrito en Materia de Concursos Mercantiles* agreed on October 28, 2022 to approve the bankruptcy agreement as an enforceable sentence, thus concluding its *Concurso Mercantil* process.

Derived from the above, the Administration recognized an impairment for the value of its investment for Ps. 22 million and Ps. 290 million in 2022 and 2021, respectively. As of December 31, 2022, 2021 and 2020, the balance of the net account receivable from Altán amounts to Ps. 31 million, Ps. 304 million and Ps. 131 million, respectively, without value added tax.

Repurchase of Senior Notes 2024

The Company made repurchases of its 2024 Senior Notes, for a total of Ps. 754 million (US$37.8 million) of the aggregate principal amount. As of December 31, 2022, the balance of the 2024 Senior Notes is $7,788 million (US$402.2 million). Derived from this operation, the Company immediately recognized in the consolidated income statement, Ps. 4.5 million of debt issuance costs that were pending amortization at such date.

Share Repurchase Program – Axtel’s Annual General Ordinary Shareholders’ Meeting on March 7, 2022

At the General Ordinary Shareholders' Meeting held on March 7, 2022, it was approved that the maximum amount of resources to be used for the repurchase program during fiscal year 2022 would be Ps. 200 million.

Cancellation of Shares – Axtel’s Extraordinary Shareholders’ Meeting on March 7, 2022

At the Extraordinary Shareholders’ Meeting celebrated on the 7th of March, 2022, it was approved the cancelation of 424,991,364 ordinary shares, nominative, without expression of nominal value, of Class "I", Series "B" representative of the Axtel’s capital stock, equivalent to 60,713,052 AXTELCPOs, held in the Company’s treasury from the share buyback program. As a consequence of such cancellation, it was resolved to carry out the reduction in the fixed part of the Company´s capital stock by the total amount of Ps. 9,747,045.18; amount equal to the theorical value of the canceled shares, remaining such capital stock fixed part at $454,620,882.31.

Reform Second Clause of the Bylaws – Axtel’s Extraordinary Shareholders’ Meeting on March 7, 2022

In accordance with the resolutions adopted in the Extraordinary Shareholders’ Meeting held on March 7, 2022, it was approved to amend the Second Clause text of Axtel´s bylaws, relative to the corporate purpose, to adjust it to the labor legislative reforms, by which sections a) and b) are adjusted, the text from those subsections remaining as indicated below:

“SECOND. – The corporate purpose of the Company will be the following: a) Operate and exploit a public telecommunications network, the provision of telecommunications services through wired or wireless technologies, as well as using, take advantage of, exploit spectrum frequency bands, infrastructure rights of use, dark fiber lease, integration and management of connectivity solutions, cybersecurity, internet of things, managed information and collaboration technologies, integration of turnkey projects and integration and management of data center solutions as well as the administration of telecommunications infrastructure projects and turnkey projects. b). – Commercialization, distribution, export and sale of all kinds of telecommunications, computer and electronic equipment and the acquisition and/or operation of telecommunications equipment and installations, national and international and of any type of technology…"

2021

COVID-19 impacts

On March 11, 2020, the World Health Organization declared the infectious disease virus SARS-COV2 (hereinafter, "COVID-19") a pandemic. COVID-19 had and continues to have strong impacts on the health, economic and social systems on a global scale.

The company, through its subsidiaries, has taken actions to counteract the effects that COVID-19 on the economic markets in which it participates, focusing on strengthening operating and financial performance, through constant monitoring of its cost structure, key business processes and a commitment with its collaborators through a special focus on the redefinition and capitalization of the experiences related to the remote work scheme; maintain a solid liquidity structure, through a detailed management of cash flow; and a constant monitoring of its financial position, in order to ensure compliance with the stipulated covenants and its key financial ratios.

During the year ended on the 31st of December 2021, the impacts directly attributable to COVID-19 were negative. Revenues in 2021 decreased when compared to 2020 by Ps. 55 million mainly due to the negative effects of the global semiconductor shortage and logistic delays, which translates into the cancelation of time-sensitive projects and a general delay in the implementation of projects.

As of the date of the present Annual Report, the Company continues monitoring the development of its business, complying with government regulations and responding promptly to arising changes.

Succession in General Management

On January 22, 2021, Rolando Zubirán Shetler, CEO of the Company reported the beginning of the succession process of the General Management, having decided to take his retirement benefits and retire. Axtel's board appointed Eduardo Escalante Castillo as Acting CEO as of this date and during the selection process of the new Axtel's CEO.

Debt Prepayment (Senior Notes 2024)

On March 3, 2021, the Company prepaid $1,197,210 (US$60 million) of the principal of the Senior Notes 2024 to strengthen its financial structure and reduce financial expenses.

After the prepayment, the remaining principal on the Notes is US$440 million. The partial prepayment was made with cash funds obtained from the data center transaction in 2020.

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

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

Credit renewal with Export Development Canada

On May 25, 2021, the Company entered into an agreement with Export Development Canada for the renewal of the bilateral revolving credit for up to US$50 million, or its equivalent is pesos, extending the maturity from June 2021 to June 2024. As of December 31, 2021, US$27 million and Ps. 50 million were the drawn amount from such credit. For the part in pesos, interest is payable at a monthly rate of TIIE 28D + 1.75%, while for the part in dollars, it is payable at a monthly rate of Libor 1M + 2.00%.

Debt Prepayment

On September 27, 2021, the Company prepaid Ps. 400 million (US$20 million) of the principal amount of the credit in dollars maintained with Export Development Canada maturing in 2024 and with an interest rate of Libor 1M + 2.00%. After the prepayment, the principal amount of the dollars debt portion is US$27 million. Derived from this prepayment, the Company immediately recognized in the consolidated income statement, Ps. 0.5 million from the costs related to obtaining such debt and that were pending amortization.

Impairment in shares investment and accounts receivable from Altán Redes S.A.P.I. de C.V. ("Altan")

The company has a stock ownership equivalent to 1.96% of Altán´s capital stock as of December 31, 2021, 2020 and 2019. Moreover, Axtel is Altán's telecommunications and IT service provider.

On November 12, 2021, Altán was declared in *concurso mercantil* and from the day of the publication of the resolution in the "Diario Oficial de la Federación" Altán has an initial conciliation period of 185 calendar days that can be extended for two more periods of 90 calendar days.

As a result of the foregoing, Management recognized a deterioration of the value of its investment for Ps. 290 million (See note 25 of the Audited Financial Statements). As of December 31, 2021, 2020 and 2019, the balance of the accounts receivable from Altán amounts to Ps. 304 million, Ps 131 million and Ps. 106 million, respectively, without value added tax. Additionally, the Company has a document receivable from Altán for Ps. 20 million.

<u>2020</u>

COVID-19 impacts

As a result of COVID-19, Axtel began operating under three main priorities, the safety and well-being of all employees, the needs and support of customers, as well as the continuity of the business and operations.

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

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

Final closing of agreement with Equinix

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

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

Debt Prepayment

On February 14, 2020, the Company prepaid the entire syndicated loan held with HSBC as the leader of the participating financial institutions for an amount of Ps. 1,320 million (US$67 million). As a result of this prepayment, the Company immediately recognized in the consolidated statement of income the costs of obtaining debt that were pending amortization as of that date for Ps. 8 million. Likewise, during fiscal year 2020, the Company made payments to ALFA S. A. B. de C. V. of Ps. 703 million and Ps. 10.6 million for principal and interest, respectively.

1.4) Risk Factors

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

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

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

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

1.4.1) Risks Related to the Company

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

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

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

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

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

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

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

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

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

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

Axtel has more than 12 thousand enterprise and government clients in Mexico; including national and multinational corporations, large and medium-sized companies in the financial sector, retail, education, manufacturing, among others and federal, state and local entities of the government sector. Additionally, Axnet has important wholesale customers.

In 2022, the top ten customers represented 22% of the Company's total sales. The two largest customers accounted for 5% and 4% of total sales, respectively.

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

However, Axtel is Altán´s IT and telecommunications services provider. On November 12, 2021, Altán was declared in *concurso mercantil*, which affected the Company´s results. For more information, see section 1.*3) Recent important events* of this *Annual Report.*

Contracts with the government segment have higher levels of uncertainty.

Government segment revenues represented 10%, 12% and 16% of total revenues for 2022, 2021 and 2020, respectively. The agreements are subject to a higher level of uncertainty since they can be rescinded if certain conditions are not met, and a public tender process should be carried out for an extension or direct award. In addition, bidding processes for new contracts may or may not be postponed, depending on market conditions. The loss of market share or income from agreements with customers in the government segment have had and could have a negative impact on Axtel's financial condition and results of operations.

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

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

The interruption in its operations for a prolonged time, could affect its operation and, therefore, its clients trust, its sales and profitability. To manage this risk, Axtel has a Management System for Business and Risk Continuity, certified by the international standards ISO 22301 and ISO 31000.

An example of the above was that, in the face of the pandemic, Axtel activated its Business Continuity protocols, which allowed it to respond in a timely and safe manner, prioritizing the well-being of its collaborators and maintaining the continuity of operations remotely, maintaining the levels of service and commitments established, thus confirming its cyber resilience. However, no assurance can be given that business continuity plans will be fully effective in the event of interruptions or failures in the Company's information technology systems, therefore, improvements are made in the recovery strategies; identified in the periodic continuity drills, as well as in the real events associated with our services and infrastructure.

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

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

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

An example of this, is that in 2020 given the rapid establishment of remote work (virtual office) and in 2022 derived from the cyber war due to the war conflict between Russia and Ukraine, cyberattacks increased worldwide, as a result, Axtel continues to adopt new security controls and reinforce existing measures (technologies and digital hygiene awareness campaigns) increasing the capacity to respond to this type of events.

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

Risk that investments will not generate the expected income.

In 2022, 2021 and 2020, investments in network and infrastructure and intangibles totaled Ps. 1,331, Ps. 1533 million and Ps. 2,146 million, respectively. It is expected that significant additional amounts will have to be invested to maintain and improve the network and expand capacity and business in the future, including acquisitions and the sale of non-strategic assets. Such investments and divestments, together with operating expenses, can affect the generation of cash flow and profitability, especially if additional revenues or efficiencies are not generated. Axtel forecasts that, in addition to maintaining strict control in the administration of the business, continuous growth will require attracting and retaining the necessary qualified personnel for efficient management of the growth mentioned. If the challenges cannot be overcome, operating results and the financial situation of the Company may be affected.

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

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

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

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

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

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

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

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

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

The Company's insurance coverage could be insufficient to face future responsibilities, including lawsuits, due to the limits established by the contracted coverage, or it could be the case that the insurance companies deny coverage for such responsibilities. In both cases, there could be negative effects on the Company's business, financial situation, and results of operations.

The Company's external insurance coverage could be insufficient to cover damages, for example, if the value of such damage is greater than the amounts covered by the insurance policies, or, if it was not a covered damage. This situation could generate important unforeseen expenses, which would negatively affect the business, the results and the financial situation of the Company. Additionally, insurance companies may seek to terminate or deny coverage for future liabilities, including lawsuits, investigations and other legal actions against the Company. In the event of such future liabilities and insufficient coverage, or if coverage is terminated or denied by insurers, the Company could have adverse effects on its business, financial condition and results of operations.

A failure in the infrastructure and/or systems of the Company could cause delays or interruptions in the services it provides, 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 its network and infrastructure are exposed to include:

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

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

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

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

Any loss of key personnel could adversely affect the business.

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

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

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

At the end of 2022, Axtel had 4,083 employees in Mexico. Since Axtel sold its mass market segment in 2019, the Company no longer has unionized personnel. The Company is prepared so that any change in labor legislation does not generate drawbacks, it also has a 360° wellness program that supports the requirements specified in Nom 035. Any significant increase in labor costs, deterioration of relationships in any of its locations, whether due to employee turnover, changes in labor legislation or their interpretation, could have a material adverse effect on the business, financial condition, results of operations and prospects.

Axtel's operations are subject to general litigation risks.

Axtel is involved in litigation on various affairs, which have continuously arisen due to its business, legislative modifications, State policies, executive and regulatory activity of the competent authorities; likewise, it has been identified that state and municipal jurisdictions have issued provisions that imply the burying of new infrastructure as well as the existing one, which has led to litigation.

Examples of this are the regulatory definitions made by the *Instituto Federal de Telecomunicaciones*, in respect of which, in general, Axtel has adopted and safeguarded, reducing the risks due to the criteria issued by the specialized Courts and the Supreme Court of Justice of the Nation, nevertheless, such deference in favor of the Regulator may act against Axtel in the face of a resolution adverse to the Company.

Although generally there have been good results in the litigation procedures in which the Company participates, the trends, expenses and results of these cannot be predicted with total certainty, while the most adverse scenarios could have a material effect on the business, financial situation and operation results of Axtel.

Axtel depends on the Preponderant Economic Agent ("AEP") for the provision of telecommunications services, including dedicated links and last mile access infrastructure, if in the future Telmex ceases to be an AEP and is allowed to charge higher rates than those currently regulated by the Instituto Federal de Telecomunicaciones ("IFT"), Axtel could have a material adverse effect on the business and results of operations.

Since July 4, 2014, when the LFTR was announced, the IFT determined that América Móvil and its subsidiaries, Telmex and Telcel, are Preponderant Economic Agents in the Telecommunications sector, imposing asymmetric regulations.

The IFT determined the interconnection rates that fixed and mobile operators must pay to América Móvil. The resolution established that the rates will be based on international best practices, cost-oriented methodologies, transparency and reasonableness. The new interconnection rates came into effect as of January 1, 2018; although operators that compete with América Móvil will not have to pay interconnection charges retroactively.

In 2019, the IFT began the process of reviewing the preponderance measures imposed on América Móvil as a holding company of Telmex and Telcel, such process concluded in December 2020 and the existing measures such as the functional separation of certain assets used for the unbundling of the local network and for dedicated links remain in force. However, if the asymmetric regulation imposed on Telmex and Telcel is softened and/or eliminated in the future, there could be a material adverse effect on the business, financial condition and results of operations of the Company, as a consequence of a possible substantive increase of the rates of the wholesale services contracted with América Móvil.

In December 2020, the IFT issued the second biennial review of the preponderance measures for both fixed and mobile wireless network markets, in particular for *AEP* companies and subsidiaries allowing tariff freedom or less strict price control, for regulated wholesale inputs (fiber optics from the access network and dedicated links), the changes in the regulation can potentially have negative effects on the market, so Axtel will seek to mitigate their effects through the necessary legal channels.

In January 2023, the third review process of the preponderance measures imposed on the AEP in telecommunications began; this process is expected to conclude in December 2023.

The result of the review of the measures cannot be predicted, however, it has been pointed out that during the period of analysis no substantial improvements have been observed in terms of the provision of services and it has been requested that prices remain oriented to costs to avoid abrupt and unjustified increases.

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

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

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

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

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

Insurance coverage may not be sufficient to cover future liabilities, including claims for litigation, either due to coverage limits or because 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 Controladora Axtel, a company under control by ALFA, which indirectly owns 53.9% of the outstanding common shares. As such, ALFA has and will continue to have, the power to control operations and may exercise control in a manner that differs from other interests. The interests of ALFA may differ from the interests of minority shareholders or creditors in material aspects, including with respect to, among others, the appointment of board members, the appointment of the CEO and the approval of mergers, acquisitions and other non-recurring activities. In addition, ALFA and a group of shareholders holding a portion of Axtel's capital share have entered into a shareholders' agreement for the purpose of defining their relationship as shareholders, as well as establishing certain restrictions on the transfer of shares between ALFA and said shareholders. This shareholder agreement contains, among other provisions, rules for the appointment of board members, provisions relating to matters requiring a qualified majority at shareholders' meetings and provisions on preemptive rights. Although each of ALFA's subsidiaries determines its own business plan according to the industry in which it operates, ALFA can exert a significant influence on Axtel's commercial strategy, administration and operations. Consequently, any commercial decision or changes in the global strategy of the majority shareholders could adversely affect the Company's business, financial situation and results of operations.

Moreover, on July 12, 2022, ALFA's shareholders approved the spin-off of their share ownership in Axtel, to a new entity called Controladora Axtel, which will be listed on the Mexican Stock Exchange (the "Spin-off"). As of the date of this Annual Report, the process is currently in obtaining the corresponding authorizations for the registration of the shares of Controladora Axtel in the RNV and to be listed on the Stock Exchange for trading in Mexico. ALFA shareholders will receive one share of Controladora Axtel for each of their ALFA shares, in addition to retaining their participation in ALFA's capital stock.

As a result of the Spin-off, Axtel could receive a credit rating downgrade as it does not have the implicit support of ALFA. The foregoing could make it difficult for the Company to finance its future capital needs and/or obtain the refinancing for the outstanding debt at competitive prices when the time comes due. Furthermore, as an independent public company, Controladora Axtel would not be able to obtain the same benefits as if it continued to form part of ALFA's business group.

Some risk rating agencies could consider that Axtel's rating has a better credit rating by having the implicit support of ALFA; In the absence of this support due to the Spin-off, Axtel could receive a downgrade in its credit rating, causing its financing costs to increase and/or reducing its ability to access a wide range of financing sources as it has done in the past before the spin-off. In addition, some financial entities could decide not to grant additional financing or refinancing of existing debt to Axtel as it does not belong to ALFA, which would make it unable to finance its capital needs or to refinance its existing debt.

Because of the Spin-off, there is a risk that the Company, being an independent public company that is no longer part of ALFA, will be affected to a greater extent by market movements and other adverse events, such as certain access limitations to the financial markets that Axtel would require to refinance its debt, or, as the case may be, a downgrade in its credit rating; than if it continued to be part of ALFA. Likewise, the Company's customers and suppliers could perceive that, by not being part of ALFA, it might have a lesser capacity to respond to the commitments acquired and be subject to cancellation of commercial contracts; In addition, it might not have the same purchasing power or access to capital markets. The foregoing could have a significant adverse effect on its business, financial situation and results of operations.

The Company could face difficulties in financing its operations and investments after the Spin-off, which could have an adverse impact on its business and results.

The Company may be required to place additional debt or issue equity to fund working capital and capital investments or make acquisitions and other investments after the Spin-off. There is no assurance that the debt or capital financing will be available to the Company on acceptable terms. If the Company is not able to obtain sufficient financing on attractive terms, its financial condition and results of operations could be adversely affected.

Certain contracts entered by Axtel contain change of control clauses.

Axtel has entered contracts with various creditors, customers, suppliers, among others, that contain change of control clauses. By virtue of the foregoing and derived from the Spin-off, in the event that a change of control is verified in accordance with the provisions of such contracts, without having notified or obtained the authorization of the counterparty, as appropriate, the latter shall have the right to rescind or terminate the respective contract in advance. This could cause Axtel to be forced to pay its obligation early or for customers to cancel programs that were previously granted. Although there is no reason to believe that the counterparties to the aforementioned contracts will not grant a waiver or authorization for the execution of the Spin-off, the Company cannot guarantee that such waivers will be obtained timely or at all, or that the terms and conditions of such contracts are not modified as a condition for the granting of the waiver and the modification, rescission or early termination of such contracts could adversely impact the business and the results of operations of the Company.

Services provided to Axtel by Alfa and some of its subsidiaries.

In the ordinary course of its operations, Axtel receives administrative and corporate services from some of Alfa´s subsidiaries, including, among others, Alliax, S.A. de C.V. and Alfa. Axtel receives from Alfa the following administrative and support services (among others): government and institutional lobbying, human resources, financial planning, treasury, legal and tax advice, strategic planning, internal auditing, investor relations and communication.

Likewise, Axtel receives from Alliax, S.A. de C.V., certain services, including CFDI stamping and other administrative services. In addition, it receives certain services from some Alfa subsidiaries, including air transportation, protection and security, leasing and other corporate and administrative services.

As a consequence of the Spin-off, there is a risk that Axtel, being an independent company from Alfa, may stop receiving some of these services from Alfa´s subsidiaries, or that the terms and conditions of such services may be modified.

The Company may not carry out the anticipated business growth opportunities, profit benefits, cost savings and other benefits, or may incur in unanticipated costs associated with the Spin-off, resulting in an adverse effect on its results of operations, financial condition and the stock price.

There is no assurance that the Spin-off will achieve the business growth opportunities, profit benefits, cost savings and other benefits anticipated for Controladora Axtel. Alfa considers that the Spin-off is justified by the expected benefits, however, these benefits could not be developed and other considerations under which the Spin-off was founded could be incorrect, since, among others, such considerations were mainly based on public information available.

To the extent the Company incurs additional costs, achieves lower income benefits, or has less than expected cost savings, its results of operations, financial condition and stock price could be affected.

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

Axtel has and will continue to carry out transactions with ALFA and several entities directly or indirectly owned or controlled by ALFA. Specifically, Axtel has entered certain service contracts with affiliates in exchange for certain fees. Mexican law applicable to public companies and the Company's bylaws provide for several procedures, which include obtaining fair and favorable opinions from internal committees, designed to ensure that transactions entered with, or between subsidiaries and ALFA, do not deviate from market conditions including the approval of the board of directors for some of these transactions. Axtel is likely to continue to carry out transactions with ALFA and its affiliates or subsidiaries and Axtel's subsidiaries and affiliates are likely to continue to transact between them and there is no guarantee that the terms considered under market conditions will be considered as such by third parties. In addition, future conflicts of interest may arise between Axtel and ALFA or any of its subsidiaries or affiliates, conflicts that may not be resolved in favor of Axtel. See section *4.2) Operations with Related Parties* on this *Annual Report.*

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

The fraudulent use of telecommunications networks by users and operators can generate a significant cost for the Company if eventual payment requirements from other fixed and mobile voice service operators arise, whether they are interconnection rates at the domestic level or international settlement fees. As a result, it is possible that Axtel will see a reduction in its profits, without ruling out the regulatory consequences of the authority's intervention.

Regardless that technology has been developed to combat the fraudulent use of services and that Axtel has implemented such technology in its network, fraudulent practices have not been eliminated, as they are not under the exclusive control of the Company and because of the definition of new fraud categories, such as those related to data traffic between networks and between mobile devices.

1.4.2) Risks Relating to Indebtedness and Possible Bankruptcy

The level of debt 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, 2022, total debt including accrued interest was Ps. 11,881 million. Axtel's level of debt could have important consequences for investors in the Company's stock, including:

- limit the Company's ability to generate sufficient cash flow to meet the obligations arising from its indebtedness, particularly in the event of a default under any of the contracts that document such debt;
- limit cash flow to finance working capital, invest in fixed assets and cover other corporate requirements;
- increase the Company's vulnerability to adverse economic and industry conditions, including increases in interest rates, exchange rate fluctuations and market volatility;
- limit the Company's ability to obtain additional financing to refinance its debt or to finance working capital, capital expenditures and other general corporate requirements, or to carry out future acquisitions on favorable terms, or at all;
- limit the Company's flexibility to plan for, or react to, changes in the business and industry; and
- limit the ability to incur additional financing to make acquisitions, investments, or take advantage of corporate opportunities in general.

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

The Company may be unable to obtain financing if there is a deterioration in the credit or capital markets, or its rating is reduced. The foregoing could make it difficult or impossible to finance its future capital needs and/or obtain the refinancing for its unpaid debt when the time becomes due.

A deterioration in the conditions of the capital and credit markets could affect the Company's ability to access them. Additionally, financing costs could increase if there are adverse changes in the Company's credit rating, which is based on several factors, including the level and volatility of its earnings, the quality of management and the Company's liquidity and capacity to access a wide range of funding sources. If that occurs, the Company may be unable to find additional financing available for its needs, whether on acceptable terms or not. Additionally, the Company may be unable to refinance its existing debt when it becomes due. If the Company is unable to finance its capital needs or to refinance its existing debt, this could have a material adverse effect on its business, financial condition and results of operations.

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

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

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

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

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

Committed line facilities, as well as Senior Notes 2024, stablish certain limitations to the ability of, among other things:

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

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

1.4.3) Risks Related to the Mexican Telecommunications Industry

Axtel operates in a highly regulated industry.

As a public service provider, the Company is subject to extensive regulation. The operation of telecommunications systems in Mexico is currently subject to laws and regulations administered by the IFT, aimed at regulating and promoting competition and the efficient development of the telecommunications and broadcasting industry in Mexico. Such laws and regulations have been modified in the past and can be modified or repealed repeatedly. Therefore, the Company may need to implement changes and / or adjustments in the operation to bring them into line with the current regulatory framework and comply with all obligations to avoid affecting the business. Adverse IFT interpretations can affect business and results of operations. See section *2.12.4) Reforms in the Telecommunications Sector in Mexico* of this *Annual Report.*

There are some initiatives promoted by Municipalities or States, that seek to force concessionaires to bury the infrastructure that is currently installed aerially. If approved, the burial initiatives would have a negative impact, increasing the Company´s investments and costs associated with deployment, repair and maintenance of infrastructure.

During 2022, the municipal assemblies of Guadalajara and Monterrey approved ordinances with the purpose of forcing the burying of the new infrastructure, excluding the current infrastructure, which are in dispute.

In the light that installed airspace infrastructure turn out to be an affordable investment, quick to install and easy to repair, increasing migration of the telecommunications infrastructure to the underground would imply an increase in investment and operating costs of the Company, as well as a limitation for new investments in infrastructure deployment; so, it would have an unfavorable impact on the business.

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

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

- The rights and obligations granted in the concessions can only be transferred with the prior authorization of the IFT;
- Neither the concession, nor the rights inherent to it or the related assets, may be subject to transfer, pledge, trust, mortgage or be committed or sold to the government or a foreign country;
- The Mexican government may require changes or modifications to the spectrum granted in the concession, in any of the following events: i) reasons of public order, ii) national security, iii) the introduction of new technologies, iv) to solve interference problems, v) to comply with international treaties, vi) for reordering frequency bands and vii) for the continuity of a public service; and
- The Mexican government may take over, suspend, or indent assets related to concessions in the event of natural disasters, war, significant public disturbances, or threats to internal peace and for other reasons of public or economic order.

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

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

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

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

The Company may face unfavorable conditions in the deployment of infrastructure.

Due to the lack of homogeneous regulation at a national level (federal, state, or municipal), there are high costs and extensive time to process permits, a fact that could affect or inhibit the participation of operators in the investment of new infrastructure deployment, including Axtel. In addition, as previously indicated, there is a risk of the issuance of regulatory measures by municipalities and States for the burying of new infrastructure.

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

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

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

Resulting from technological advances and regulatory changes, cable network operators entered the Mexican telecommunications market with combined services, which increased the level of competition. Several cable network providers have modified their concessions 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 that provide telecommunications services at an international level are focusing on the Mexican market to offer and provide illegal telecommunications services.

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

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

The Mexican telecommunications market may continue to experience pressure on rates, primarily because 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 increase revenues to offset the impact of the decreased rates on its operating margin.

1.4.4) Risks Relating to Mexico and Other Global Risks

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

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

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

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

Axtel's Operating results and financial condition depend partly on Mexico's economic activity level. Income in Mexico has a considerable dependence on oil, U.S. exports, remittances and commodities and these variables are factors that are beyond the Company's control. External economic events could significantly affect Mexico's general economy and cause sudden economic shocks like those experienced in 2020 when Mexico's GDP declined 8.5% and in 2009 when it declined 5.3%, while in 2022 GDP increased 3.1% (*Source: INEGI*). Volatility in Mexico's economy could significantly affect Axtel's business and operating results.

Mexico could continue to go through a period of violence and criminal activity which, in turn, could affect the business and results of operations

Recently, Mexico has experienced periods of high violence and crime due to organized crime activities. In response, the Mexican government has implemented various security measures and has strengthened its police forces and the army. Despite the above, organized crime (especially related to drugs and the theft of gasoline) continues to exist in Mexico. Their activities, the possible aggravation of these and the corresponding violence, could have an adverse effect on the national economy or on the Company's operations in the future. The social and political situation in Mexico could adversely affect the Mexican economy, which could have a material adverse effect on the business, financial condition, results of operations and prospects of the Company.

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

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

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

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

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

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

Changes in the United States government policies.

Changes in the policies implemented by the current presidential administration of the United States may affect the Mexican economy and may materially damage Axtel's business, financial situation and operating results. Any substantial change in US commercial policies, particularly any modification with respect to Mexico and the Treaty between Mexico, the United States and Canada, or 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.

The Company is exposed to fluctuations in interest rates; As of December 31, 2022, approximately 30.4% of its debt accrued interest at a variable rate. Changes in interest rates could affect the cost of this debt. If the interest rates increase, the service obligations of the variable rate would increase (even if the amount owed remains the same) and the net profit and the cash available for payment of debt would decrease. As a result, the financial situation, operating results and liquidity could be adversely and significantly affected. In addition, attempts to mitigate interest rate risk by financing long-term liabilities with fixed interest rates and the use of derivative financial instruments, such as variable to fixed interest rate swaps with respect to indebtedness, could result in failure to achieve savings if the interest rates fall, negatively affecting the Company's operating results and capacity to pay its debt and other obligations.

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

While most of Axtel's revenues are denominated in pesos, most of its capital investments and 70% of its debt as of December 31, 2022, 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. According to the Bank of Mexico, the peso depreciated 5.5% in 2020, depreciated 3.1% in 2021 and appreciated 6.3% in 2022 against the dollar in nominal terms. 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 suffer high levels of inflation in the future, which could adversely and significantly affect the business, operating results and prospects of the Company.

In the past, the Mexican economy has experienced periods of high levels of inflation and may experience them again in the future. Historically, inflation in Mexico has generated high interest rates, the depreciation of the Peso and, in some cases, the imposition of significant government controls over currency exchange and prices, which, at times, has affected operating income and Company margins. According to INEGI calculations, the annual inflation rate in recent years, measured by changes in the NCPI, was 3.2% in 2020, 7.4% in 2021 and 7.8% in 2022. Although inflation has moderated in recent years, Mexico could continue to experience high inflation in the future. A significant increase in the inflation rate in Mexico could adversely affect the purchasing power of consumers and therefore, negatively impact the demand for Axtel's services, as well as increasing some of the costs, adversely affecting the business, financial situation, operating results and prospects of the Company.

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

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

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

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

Even with the asymmetric regulation, there are no equivalent competition conditions in biddings between the *Agente Económico Preponderante* (“*AEP*”) in telecommunications and its competitors.

The telecommunications market in Mexico is a highly concentrated market, characterized by the reduction of prices and margins. If the number of competitors should increase, a price battle could arise to the extent that the AEP maintained its dominant position. If there are additional reductions in the price of telecommunications services in Mexico, the Company would be obliged to react to such reduction through similar actions, or, failing that, would face the risk of losing part of its market share, all of which would adversely affect its business, financial condition and results of operations.

In the government bidding there is the risk that the *AEP* or another operator offers operating conditions and prices that cannot be replicated by Axtel, which may affect demand and revenues.

Axtel depends on a complementary manner on the infrastructure of the *Agente Económico Preponderante* (“*AEP*”) as a necessary input to provide its retail services.

The annual adjustments to the reference prices for services that Axtel leases, generate additional expenses for the Company, such as:

- Charge for collocation services;
- Technology migration;
- Hiring of new components;
- Charge for Special Projects or Works;
- Increases in local or long-distance rental or installation rates.

Hence, there is some uncertainty regarding the negative economic impacts of these changes to the regulation, as well as any measure that allows the discretion of the *AEP* to make its infrastructure available both in terms of costs and service provision times.

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

On March 11, 2020, the World Health Organization declared the infectious disease virus SARS-COV2 (hereinafter, "COVID-19") a pandemic. COVID-19 had and continues to have strong impacts on the health, economic and social systems worldwide,

The Company, through its subsidiaries, has taken actions to counteract the effects that COVID-19 has had on the economic markets in which it participates, focusing on strengthening the operational and financial performance, through constant monitoring of its structure of costs, key business processes and a commitment to its employees over a special focus on the redefinition and capitalization of experiences related to remote work; maintain a solid liquidity structure, through detailed management of cash flow; and constant monitoring of its financial position, to ensure the compliance of the stipulated covenants and its key financial ratios.

As of December 31, 2021, the impacts directly attributable to COVID-19 were negative. The revenues in 2021 decreased compared to 2020 by Ps. 55 million due primarily to the negative effects of the global semiconductor shortage and logistics delays, resulting in the cancellation of time-sensitive projects and a general delay in project implementation times.

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

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

Natural disasters, such as earthquakes, hurricanes, floods, or tornadoes, have affected Axtel’s business, its suppliers and customers in the past and could do so in the future. If similar events occur in the future, there may be business interruptions, which could adversely affect material results of operations. In addition, the business could be affected by epidemics or health outbreaks, disrupting business operations. War, 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 Ordinary Participation Certificates ("CPOs" or "AXTELCPO")

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

The Company cannot guarantee the liquidity of the AXTELCPOs 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 BMV is one of the largest stock exchanges in Latin America in terms of accumulated market capitalization of the companies listed on it, but its liquidity and volatility make it small compared to other foreign stock markets. Although the public participates in the exchange of securities on the BMV, large institutional investors carry out a significant part of the activity on it. The volume of listings of securities issued by companies in emerging markets, such as Mexican companies, tends to be less than the volume of listings of securities issued by companies in more developed countries. The foregoing market characteristics may limit the ability of a holder of the Company's shares to sell them and may also affect its market price.

The price of AXTELCPO may be volatile and investors may lose all or part of their investment.

The market price of Axtel's AXTELCPOs could fluctuate considerably and could be higher or lower than the market price paid. The market price of the shares could be influenced by various factors, some of which are beyond the control of the Company, including:

- High volatility in the market price and brokerage volume of securities of companies in the sectors in which the Company and its subsidiaries participate, which are not necessarily related to the performance of these companies;
- Changes in profits or variations in the operating results of the Company;
- Differences between actual financial and operating results and those expected by investors;
- Performance of companies that are comparable with the Company or with the subsidiaries of the Company;
- Industry trends in information technology and telecommunications;
- New laws or regulations or new interpretations of laws and regulations, including tax or other provisions applicable to the business of the Company or that of its subsidiaries;
- Investor perceptions of the Company and the industry in which it operates;
- Changes in financial estimates or securities analyst recommendations and variances between actual and expected results and investor expectations;
- Changes in financial or economic estimates by stock analysts;
- The acts carried out by the main shareholders of the Company with respect to the sale of their shares, or the perceptions in the sense that they plan to sell said shares;
- The hiring or loss of key managers;
- Perceptions about the way in which the Company's administrators provide their services and perform their duties;
- An increase in competition;
- Changes in technology that affect the business;
- Announcements, results or actions taken by competitors;
- The devaluation of the Peso against the Dollar and the imposition of foreign exchange controls or controls on the Company's ability to transfer funds;
- The general trends of the economy or financial markets in Mexico and the rest of the world, including those derived from wars, acts of terrorism or the measures adopted in response to such events;
- Sales of shares or other securities by shareholders;
- The effects of the pandemic caused by the COVID-19 virus on operations and the global economy; and

- The situation and political events in Mexico and the rest of the world.

Additionally, the capital market, in general, has experienced important fluctuations in price and volume that, generally, have not been related or have had a disproportionate relationship with the performance of the companies specifically affected. The Company cannot predict whether the Shares will trade above or below the net value of the Company. Likewise, this type of general fluctuation could adversely affect the price of the shares. In the past, shareholders have filed class action lawsuits against companies after periods of volatility in the market price of their securities. Any similar litigation against the Issuer could result in substantial costs, divert the attention and resources of the administration and damage the business or the results of operations.

These market and industry factors could materially and adversely affect the price of the Shares, regardless of the performance of the Company.

It is difficult to predict the listing price of the AXTELCPOs after the Spin-off and after receiving the corresponding authorizations from the CNBV and BMV for the shares of *Controladora Axtel* to be listed on the BMV.

The listing price of the AXTELCPOs could fluctuate when Controladora Axtel is listed on the BMV.

Future issuances of Shares may result in a decrease of the market price of the AXTELCPOs.

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

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

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

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

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

In accordance with the provisions of the applicable legislation in Mexico, the Company's bylaws restrict the possibility of foreign shareholders invoking the protection of their governments regarding their rights.

Pursuant to the requirements of the applicable legislation in Mexico, the Company's bylaws provide that foreign shareholders be considered as Mexican with respect to their interests in the Company and that they agree not to invoke the protection of their Governments, nor request diplomatic intervention against the Mexican Government with respect to his rights and obligations as a shareholder. In case of violating this provision, such shareholders could lose, in favor of the Mexican Government, the shares they own. However, the Company's bylaws do not provide that foreign shareholders waive any other rights they may have, including any rights under US securities laws with respect to their investment in the Company.

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

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

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

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

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

Pursuant to the Company's bylaws and the CPO trust documents, shareholders will have to bring any legal action 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.

If securities or industry analysts do not publish research or reports on the business, or if they publish negative reports, the stock price and trading volume could decline.

The price of the Issuer's shares in the stock market depends in part on the research and reports that securities or industry analysts publish about the Company and/or its business. If one or more of the analysts covering the Company revise downward their estimates of the value of the Company's shares and/or publish inaccurate or unfavorable research about the business, the price of the Shares could decline. If one or more of these analysts stops covering the Company or does not regularly publish reports on the Company, demand for the shares could decrease, which could cause the price of the shares and trading volume to decrease.

As of the date of this Annual Report, the Issuer does not have a formal dividend policy.

The payment of dividends by the Issuer and their amount are subject to approval by the shareholders based on the recommendation of its board of directors. The Issuer cannot guarantee that it will pay dividends in the future, or that its shareholders will approve the dividend payment policy prepared by the board of directors, nor can it predict the terms of such policy. Additionally, the Issuer may only pay dividends, (i) if the payment is approved by the shareholders who exercise control over the Issuer, (ii) if there are retained earnings reflected in the financial statements approved by the Issuer's shareholders, (iii) after the losses of previous fiscal years have been satisfied and (iv) after the Issuer has allocated at least 5% of the net profits with respect to such fiscal year to the legal reserve, which must be done every year until the legal reserve represents at least 20% of the Issuer's capital stock.

The Company does not have a dividend policy, however it is possible to establish one in the future, for which it will take into account the operating results, the financial situation, the capital needs, tax considerations, growth expectations and the factors that the members of the board of directors deem appropriate, including the terms and conditions of debt instruments, current and those that are entered into in the future, that limit the possibility of paying dividends. In any case, the dividends that it decrees and pays could be limited by its operating and financial results, including those derived from extraordinary events that could affect the financial situation and liquidity of the Company. In this context, the Company cannot guarantee that it will pay dividends in the future, nor the amount thereof in case they were paid.

Additionally, the Company cannot ensure that the board of directors will recommend the decree and payment of dividends to the shareholders or that, if it recommends it, the shareholders will approve such decree and payment of dividends.

Mexico has different accounting and corporate disclosure standards than the US and other countries.

A primary objective of the securities laws of Mexico, the US and other countries is the promotion of full and fair disclosure of all material corporate information, including accounting information. However, publicly available information on issuers of securities in Mexico may be different or less than that regularly available on companies listed in countries with highly developed capital markets, such as the US.

The Securities Market Law and the Company's bylaws make, with certain exceptions, the acquisition of the Company by a third party difficult, which could affect the ability of holders of shares to benefit from a change of control, or the integration of the management team and the Board of Directors, as well as could imply that such holders have to pay a conventional penalty in favor of the Company.

The provisions of Mexican law and the Company's bylaws make it difficult and costly to make a purchase offer or other attempted acquisition of the Issuer by a third party, which would result in a change of control of the Issuer. Shareholders may wish to participate in such a transaction but may not have the opportunity to do so.

The Issuer's bylaws contain provisions that, among other things, require the approval of the Issuer's Board of Directors or, as the case may be, the extraordinary shareholders' meeting, before any person, group of persons or consortium acquires, directly or indirectly, (i) 10% or more of the capital stock or any of its multiples, or agree to vote in block shares that represent such percentage, or (ii) 30% or more of the capital stock and, in the case provided In this subsection, if such approval is obtained, the bylaws establish that the Board of Directors of the Issuer may require the acquirer to make a public offer for the acquisition of 100% of the capital stock at a price equal to the highest between (x) the last book value per share of the shares reported to the CNBV or the BMV, or (y) the highest price of the volume-weighted average of the transactions carried out during the 30 days of listing of the representative shares of the Issuer's capital stock prior to the takeover bid, for a period that may not exceed six months.

Violation of the provisions set forth in the Company's bylaws regarding the transfer of shares would give rise to the obligation to pay a conventional penalty in favor of the Issuer for an amount equivalent to the price of all the shares or equivalent securities subject to the restricted operation.

These provisions could materially affect the ability of a third party to acquire control of the Company and be detrimental to shareholders who wish to benefit from any premium or other change of control benefits paid on the sale of the Company in connection with a buy offer. For more information on this restriction, see *4.4) Bylaws and other agreements – Measures to prevent the change of control in Axtel of this Annual Report.*

1.5) Other Securities

At the date of the Annual Report, the Company has a total of 19,824,236,117 ordinary shares, with no par value, of Class "I" Series "B", fully subscribed and paid representing the fixed part of its capital stock, see Section 1.3) I*mportant recent events.*

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, as well as in compliance with the General Provisions applicable to entities and issuers supervised by the National Banking and Securities Commission that hire external audit services for basic financial statements ("CUAE").

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

Not applicable.

1.7) Use of Proceeds

Not applicable.

1.8) Public Domain Documents

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

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

2. THE COMPANY

2.1) History and Development of the Company

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

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

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

Avantel was legally acquired in December 2006. Avantel Infraestructura and Avantel, S. de R.L. de C.V were incorporated in 1994 as a 55.5%-44.5% joint-venture between Banamex (through Promotora de Sistemas de Teleinformática, S.A de C.V) and MCI Telecommunications Corp. On June 30, 2005, several capitalizations in related debt and/or transfer of stocks were made resulting in a dilution of MCI Telecommunications Corp. participation to 10% in both companies.

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

On October 1, 2015, the Company, Alfa, Onexa and Alestra signed a memorandum of understanding to merge Axtel and Alestra. On December 3, 2015, Alfa, Onexa, Alestra and Axtel signed the definitive agreements, subject to corporate and regulatory approvals, to merge Axtel and Onexa. On January 15, 2016, Axtel and Onexa held Extraordinary Shareholders' Meetings where the merger was approved . After completing the legal, operational and financial reviews and obtaining authorizations from the authorities, the transaction became effective on February 15, 2016, date as of which ALFA became the majority shareholder of Axtel, the merged company becoming extinct and only the merging company subsisting under its current name Axtel, S.A.B. de C.V. Therefore, as of that date, Alestra became a 100% subsidiary of Axtel. The merger between Alestra and Axtel created a new entity with a stronger competitive position and better capabilities to offer information and communication technology services to enterprise customers.

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

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

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

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

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

On March 7, 2022, in the Extraordinary Shareholder's Meeting it was approved the cancelation of 424,991,364 ordinary shares, nominative, without expression of nominal value, of Class "I", Series "B" representative of the Axtel's capital stock, equivalent to 60,713,052 AXTELCPOs, held in the Company's treasury from the share buyback program. As a consequence of such cancellation, it was resolved to carry out the reduction in the fixed part of the Company´s capital stock by the total amount of Ps. 9,747,045.18; amount equal to the theorical value of the canceled shares, remaining such capital stock fixed part at $454,620,882.31.

On July 12, 2022, ALFA's shareholders approved the spin-off of its share ownership in Axtel, to a new entity called Controladora Axtel, whose shares will be registered in the RNV and listed on the Stock Exchange once the corresponding authorizations from the CNBV and BMV are obtained; which as of December 31, 2022 and the date of this Annual Report, such registration has not been completed. ALFA shareholders will receive one share of Controladora Axtel for each of their ALFA shares, in addition to retaining their participation in ALFA's capital stock.

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

2.2) Business Overview

2.2.1) General

Axtel is a Mexican company that offers integrated Information and Communication Technology (ICT) solutions to support its clients in the process of evolution towards the digital transformation of their businesses and in the creation of communication networks, through its brands. Alestra and Axtel Networks or Axnet.

Axtel Networks or Axnet, which participates in the market as a neutral operator, provides connectivity solutions through fiber optics to wholesale customers, including national and international fixed and wireless operators, data center and tower operators, internet giants, as well as to Alestra. Axnet's service portfolio includes connectivity services such as fiber to the tower, fiber to the data center, dark and lit fiber, spectrum and IP transit, among others.

On the other hand, Alestra works as a technological partner of more than 12,000 business clients. Its client base includes small, medium and large companies, corporations, financial institutions and government entities, seeking to accelerate the adoption of new generation services that contribute to the digital transformation and evolution of their businesses. Its portfolio includes connectivity services, value-added solutions such as managed networks and systems integration and information technology (IT) such as cloud services, collaboration and cybersecurity, among others.

Axtel considers it has the second largest fiber network in Mexico, with an infrastructure of approximately 48,800 kilometers, 23,800 kilometers of national transportation network (includes 13,400 kilometers of long-term capacity agreements) and 25,000 kilometers of metropolitan rings. Which provides Ethernet access to 72 cities. In addition, it has concessions in the spectrum bands of 7, 10.5, 15, 23 and 38 GHz. Axtel provides its services through an extensive hybrid wireless and wired local access network designed to optimize capital investments. Current options for last-mile access options for the Company's customers include fiber optic links through its metropolitan rings and point-to-point wireless technologies.

Axtel's vision is to be the best alternative in the digital experience through innovation to create value and its mission is to enable organizations increase their productivity through digitalization. The Company's strategic objective is to be the main enabler of digital transformation in Mexico and to be the world-class leading neutral operator of fiber optic networks in Mexico. In line with this objective, the following business strategies were defined: (i) accelerate market share in Digital Transformation and Value Added services with a highly specialized and collaborative model; (ii) take advantage of its strong connectivity capacity and enterprise customer base to add new digital transformation solutions or explore new opportunities; (iii) expand its market with innovative solutions and a larger customer base, such as its new mobility solution "Alestra Móvil" and greater coverage of government customers, both federal and state; (iv) increase the coverage and capillarity of the fiber network in strategic regions, becoming the main connectivity provider for international operators, mobile networks and data centers; (v) improve efficiency and margins through the digitization of processes and operations; and finally, (vi) create a culture of empowerment and talent development.

In 2022, Axtel generated Ps. 10,480 million of income and registered operating profit and EBITDA of Ps. 174 million and Ps. 3,011 million, respectively. In 2022, 53% of EBITDA came from Alestra and the remaining 47% came from Axnet.

2.2.2) Competitive Strengths

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

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

The above backed by strong alliances and certifications with leading technology partners worldwide and a service philosophy based on excellence. The Company has more than 25 years of experience and recognition in the market and aspires to provide the highest standards of services to the most relevant corporations and companies in the Mexican economy. The focus on the enterprise segment differentiates Axtel from other telecommunications companies in Mexico and its experience in providing ICT value added services to such segment gives it a competitive advantage.

- *Neutral operator with the second largest fiber network in Mexico.*

Axtel has an extensive, cutting-edge network integrated by high-capacity fiber optic lines and wireless spectrum concessions. Its hybrid fixed local network structure (wired and wireless) allows it to penetrate new markets quickly and effectively, increasing the revenue base profitably. It has the capacity to provide coverage in 72 cities, through its network, composed of approximately 48,800 km of fiber optics, including approximately 23,800 km of long-distance network and 25,000 km of metropolitan network. The metropolitan fiber network offers a unique proposal thanks to its wide coverage and capillarity, especially in very dense areas, such as Mexico City, Monterrey and Guadalajara.

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

A significant proportion of Alestra (approximately 92% of revenues in 2022) consists of contracts with recurring monthly revenue. Furthermore, given the nature of the services and the high quality of enterprise clients, Axtel maintains a loyal relationship with clients of stable recurring income. Losses related to bad debt have historically been very low, with a marginal rate of uncollectible accounts.

Furthermore, it has approximately 12 thousand clients, 8 out of 10 large corporations, as well as 90% of financial institutions in Mexico are Axtel customers served under the Alestra brand.

- *Disciplined financial strategy committed to strengthening Axtel's capital structure.*

More than 80% of Axtel's capital investments are for growth or strategic, since they represent investments in last-mile solutions, managed equipment, integral connectivity solutions, capacity and IT service solutions directly related to specific customer requirements. As a result, these investments carry less risk, with relatively more predictable returns. This provides the Company with significant visibility into revenues derived from such investments.

2.2.3) Business Strategy

The Company's strategic goal is to be the main enabler of digital transformation and to be the world-class leading operator of fiber optic networks in Mexico. The key elements to carry out the business strategy are the following:

(i) *Accelerate the market share in Digital Transformation and Value-Added services with a highly specialized and consultative model.*

Axtel, through Alestra, is positioned to capitalize on the growing demand for the adoption of digital transformation and managed services, as they become a key element in the technological evolution and productivity of its clients, from small to large corporations. Axtel focuses its efforts on strengthening its skills in certain services, among which those of digital transformation and value-added stand out, such as systems integration, managed networks, cybersecurity, cloud and collaboration solutions.

Axtel seeks to increase the proportion of digital transformation revenues within its service portfolio. To achieve it, in 2022 Axtel redefined its business model from the enterprise segment to a highly specialized one, which was successfully tested for cybersecurity services in 2021, so it decided to replicate it for additional lines of business, such as cloud, systems integration, collaboration and managed networks. These solutions make a remarkable difference for businesses, whether in terms of productivity, efficiency, availability, as well as supporting their costs and expenses reduction strategies and / or generation of new income.

(ii) Leverage its strong connectivity capacity and business customer base to add new digital transformation solutions or explore new opportunities.

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

Seeking to capitalize on this solid customer base and transversal synergies, Axtel has an up-sell strategy, that is: selling more services within the same business line and cross-selling, and selling services from other business lines, at its base of more than 12 thousand business clients and around 200 clients in the government sector.

(iii) Expand its market with innovative solutions and a larger customer base, such as its new mobility solution "Alestra Móvil" and greater coverage of government customers, both federal and state.

Axtel launched its Alestra Móvil service in 2021; first mobile phone offer focused on the enterprise segment in Mexico, seeking to enable companies to bring their fixed capacities to a mobile device; as well as enable third-party mobile projects through its MVNe platform (for its acronym, Mobile Virtual Network Enabler). Alestra Móvil has a high availability multi-operator network, three levels of security, professional tools and applications, self-management and more.

Conversely, in the government segment, Axtel has a new organization and redesigned strategy, which in 2022 focused on increasing the presence, relationship and opportunities with local and federal governments; expand reach, in collaboration with strategic suppliers and manufacturers; as well as expanding specialized services in the segment.

(iv) *Increase the coverage and capillarity of the fiber network in strategic regions, becoming the main connectivity provider for international operators, mobile networks and data centers.*

Axtel serves approximately 60 wholesale customers, including leading global and national fixed operators and seeks to be the main supplier of international operators, mobile operators and data centers in Mexico with its wide coverage. Axtel has few solid competitors in the wholesale segment and others that are restricted by limited or geographically specialized networks.

Axtel is the largest neutral infrastructure provider in the country and has the second largest fiber optic network in Mexico by a wide margin. Its metropolitan fiber network offers a unique proposal in the market due to its wide coverage and high capillarity, especially in high-density areas in the most important business areas of Mexico. Its robust network has redundant and diversified routes that provide high reliability, making it well-positioned to address the attractive opportunities for fiber-to-the-tower and fiber-to-datacenter services from mobile network deployment of new generation 5G and the construction of new data centers in Mexico.

Taking advantage of nearshoring opportunities, Axtel will continue making investments to deploy network coverage in industrial parks, data centers, metropolitan rings and expansion in growing cities. In 2022, it implemented a growth of Ethernet rings in a network of 11,740 km of fiber optics, with growth to 100 Gbps in the Southeast area and the North Pacific ring. Likewise, during the year it began a project to undertake 35 business centers and 25 industrial parks, in addition to the 346 and 68, respectively, that it already has in its portfolio. Similarly, it expanded its operating sites by enabling 13 new points of presence. To meet the demand of its enterprise customers, it implemented an additional 500 Gb in internet ports.

(v) Improve efficiency and margins through the digitalization of processes and operations.

At Axtel, for the enterprise and government segment, the portfolio of solutions has been optimized, increasing profitability. Processes for each of the business lines continue to be standardized, improving efficiency, agility and experience and response times to the clients.

Axtel Networks brought the operation of the application programming interface (API) under the MEF standard, a leading global association for the network, cloud and technology providers industry. The APIs allow international operators to request Axtel Networks in an automated way the feasibility, quoting and ordering of last-mile access services, being the first operator in Mexico that operates under these standards. Moreover, *fulfilling its purpose of offering world-class services, Axtel Networks obtained the MEF 3.0 Carrier Ethernet certification for its Access E-Line1 and Ethernet services, positioning itself before global operators as the leading infrastructure provider, with excellent performance and reliability.*

Axtel seeks to automate more and more processes and operator-to-operator interactions; with agile, simplified and standardized systems. On the other hand, it will focus on migrating the accesses currently provided by third parties to its own network. These efforts will allow it to increase its margin.

(vi) Create a culture of empowerment and talent development.

In addition to having a new commercial model, Axtel has a new "end-to-end" operating model, which consolidates the comprehensive model of business lines with a focus on greater customer proximity and specialization, covering pre-sale, product, design, delivery and customer service.

To achieve the above, Axtel has a leaner, more agile, collaborative organization with a sense of co-responsibility, focused on customer needs.

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

2.3) <u>Business Activity</u>

Axtel is a Mexican company that accompanies its clients in the evolution process towards digital innovation for their organizations; and in the creation of communication networks, providing services through its two brands: Axtel Networks, which serves wholesale infrastructure clients, and Alestra, which serves the enterprise and government segments.

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

alestra			axnet AXTEL NETWORKS
Customers: Enterprise and Government segment			**Customers: Mobile and Fixed Operators** (national and international) internet giants, data centers, towers operators.
DIGITAL TRANSFORMATION	***VALUE-ADDED***	***STANDARD SERVICES***	
CLOUD *Infrastructure as a Service* *Applications as a Service Hybrid Cloud (Multi-cloud)* *Digitalization and IoT* **CYBERSECURITY** *Managed IT and Network security Consulting* **MOBILITY** *MVNO and MVNe* **COLLABORATION** *Unified communications* *Integral Videoconference*	**SYSTEM INTEGRATION** *System integration* *DRP business continuity* **MANAGED SERVICES** *SDWAN* *LAN* *WIFI*	**VOICE** **DATA AND INTERNET** - *Private Lines* - *Dedicated Internet* - *Broadband Internet* **NETWORK SERVICES** *Ethernet* *VPN*	**CONNECTIVITY** *Last-mile access* *IP Transit* *Fiber (dark and lit)* *Long-distance Transport ("Long-Haul")* *Fiber to the tower* *Fiber to the data center* *Spectrum* *Colocation*

The services offered by the Company do not present a cyclical or seasonal behavior. On the other hand, the services that represent more than 10% of total consolidated revenues are:

2022:

Internet services for a total of Ps. 2,773 million or 26% of total consolidated revenues.

2021:

Internet services for a total of Ps. 2,672 million, equivalent to 23% of total revenues and last-mile access services for wholesale customers of Axnet for a total of Ps. 1,241 million, equivalent to 11% of total consolidated revenue.

2020:

Internet services for a total of Ps. 2,747 million, equivalent to 22% of total revenues and last-mile access services for wholesale customers of Axnet for a total of Ps. 1,327 million, equivalent to 11% of total consolidated revenue.

Infrastructure Unit (Axtel Networks)

Axtel Networks, offers world class infrastructure solutions through its long-distance fiber optics and spectrum network to expand the capacity of Carriers, national and international; mobile and data center operators, internet giants, cloud and content providers.

In order to continue as the most important neutral infrastructure operator in Mexico, it is crucial that Axtel Networks' fiber optic network has coverage in all regions of the country. Currently, it houses 48,800 km of fiber optics, including 23,800 km of transport or long-distance network and 25,000 km of metropolitan rings. It also has spectrum in the 7, 10.5, 15, 23 and 38 GHz bands used for last-mile wireless connectivity and metropolitan coverage for the enterprise segment. It currently provides Ethernet access to 72 cities with connectivity solutions such as high-capacity Wavelengths, dark and lit fiber links, IP Transit ports and last-mile access to the main fixed and mobile operators.

The fiber optics transport network has coverage in all the regions nationwide, providing Ethernet access to 72 cities, delivering to the most important fixed and mobile operators connectivity solutions such as high-capacity Wavelengths, dark and lit fiber links, IP Transit ports and last-mile access. The Metropolitan network offers a high-density coverage in the most important business regions in Mexico, allowing connectivity for enterprises, mobile phone sites and data centers.

Axtel Networks considers itself a great ally for its clients so that they, in turn, serve their users in a timely manner. Every year, the main challenge is to guarantee the operational continuity of its infrastructure and services, for which it invests in state-of-the-art infrastructure that allows it to provide a reliable, continuous and quality service to its customers.

It provides connectivity to the main data centers in Querétaro, with a deployment of 81 km of fiber optics. Likewise, in the last two years it has provided fiber connectivity to the tower (FTTT) with 1,064 km of fiber optics. Also, it implemented a growth of Ethernet rings in a network of 11,740 km of fiber optics, with growth to 100 Gbps in the Southeast area and the North Pacific ring.

In 2022, the coverage of its metropolitan network grew with a deployment of 1,500 km of fiber optics nationwide. On the other hand, during the year it began a project to undertake 35 business centers and 25 industrial parks, in addition to the 346 and 68, respectively, that it already has in its portfolio. Similarly, it expanded its operating sites by enabling 13 new points of presence. To meet the demand of its enterprise customers, it implemented an additional 500 Gb in internet ports.

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

Connectivity:

Last-mile access

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

Long Distance Transport "Long-Haul"

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

IP Transit / Dedicated Internet

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

Fiber to the Tower

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

Fiber to the Data Centers

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

Colocation

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

Spectrum

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

Enterprise and Government Segment (Alestra)

Alestra provides advanced Information and Communication Technology solutions (ICT) to more than 12,000 government and enterprise clients from different sectors, which are based on the use of managed network tools, collaboration, cybersecurity, cloud and systems integration, mobility, digital transformation and connectivity. Through the service lines, it provides highly specialized and close attention to its clients.

Since 2021 Alestra has created a series of comprehensive solutions, key to the optimal performance of its clients. Among them stands out:

Cloud Express for its direct and private connectivity to more than 250 Public Clouds such as AWS, Microsoft Azure, Google, Oracle and many more. The service is a high-performance connection alternative independent of its current network.

Alestra Móvil for being the first business mobile phone offer. Unique for its highly available multi-operator network, three levels of security, professional tools and applications, self-management and more.

Secure Cloud, a managed solution, designed to offer visibility of workloads, governance, compliance, management and knowledge of the security posture of their clients, to reduce the opportunities for cybercriminals.

Digital transformation that works through solutions focused on dramatically transforming the business. Improve the customer experience, productivity, profitability and better decision making, generating a competitive advantage. These are some of the objectives that digitization of processes (DPA) and the Internet of Things (IoT) pursue with use cases supported by market-leading technologies and the best team of specialists.

Blitz Architecture for being a lightning strategy of technological modernization. Designed to migrate from a current environment, towards a more robust platform that accelerates the digital transformation of organizations.

Solutions by industry: commerce and manufacturing that seek to boost the business of Alestra's clients from both sectors, integrating solutions for their needs. They integrate key technologies to boost productivity and goal achievement.

These solutions are offered to a wide variety of clients, which is why they classify the sectors they serve into two markets: enterprise and government.

Enterprise segment:

Alestra contributes to the digital transformation of companies from various sectors by providing them with access to technology-driven business opportunities. Its portfolio is integrated by its comprehensive high availability solutions focused on helping organizations improve their efficiency, productivity and competitiveness, while allowing them to adapt to market changes.

Through Alestra, more than 12,000 enterprise clients are reached in 4 regions: North, West/Bajío, Center/South and Southeast. Clients belong to different industries such as finance, commerce, manufacturing, logistics, services, among others.

Alestra offers a personalized approach to each client, helping them identify their specific needs and develop a plan to achieve their goals through technology. During 2022, it released two new disruptive solutions to the market due to its ability to integrate several technological partners in the same value offer. One of these was Secure Cloud, a managed solution, designed to offer visibility into workloads, governance, compliance, management and insights; together with AWS, Intel and Fortinet. The other being Blitz Architecture, a lightning strategy for technological modernization; designed to migrate from a current environment, towards a more robust platform, together with AWS, IBM, Nutanix and Veritas

In addition, it added to the portfolio the comprehensive proposal of verticalized solutions, to serve the business drivers of companies in the trade and manufacturing sector.

In 2022, because of the continuous effort to strengthen the relationship with its strategic partners and increase its level of technological specialization, Alestra reached new levels of partnership and performance recognition with the following technological partners: Checkpoint, Zoom, Nutanix, AWS and Veritas. It has also received acknowledgements from Huawei, Poly, Fortinet, Cisco, Nutanix and AWS.

Government segment:

Alestra contributes so that the public sector has the best technology available to meet the needs of Mexican society. To fulfill this commitment, the Company designed government-specific ICT solutions for topics such as road safety, one-stop applications and cloud services. This year, Alestra focused on renewing expired contracts and developing proactive solutions, identifying customer needs in order to offer solutions that resulted in better attention for citizens.

Alestra constantly implements strategies for advanced connectivity services, cybersecurity, managed services and a portfolio of cloud-based products, among others, with the aim of making government processes more agile.

To reach both segments, enterprise and government, Alestra has more than 120 solutions organized in three main categories:

Standard Services:

Voice/Telephony:

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

Data and Internet

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

Network Services

Alestra 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. All these options allow the secure transmission of voice, data or video information simultaneously.

Hosting

Hosting service which allows customers to host their servers in a secure space. The service offers an integral solution that includes: Space, Energy, Air Conditioning, Security and Support. Likewise, the collocation solution in the Monterrey and Querétaro data centers allows clients to expand their digitalization possibilities, by integrating them with the Connectivity, Cloud, Cybersecurity, System Integration, among others.

Value Added Solutions:

System Integration

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

Managed Services

Alestra has a managed network solutions portfolio, where clients receive the following benefits through an equipment monthly fee: design, implementation, support, maintenance, equipment operation and management. Some of the services offered as managed networks are Managed Wi-Fi, Managed LAN and the new SDWAN technology that integrates software-based telecommunications.

Digital Transformation:

Cybersecurity

The cybersecurity portfolio provides solutions that protect computer equipment, networks and systems from threats and attacks by providing, operating, managing and monitoring the entire information security infrastructure the client requires. Some associated services include Vulnerability Analysis that offers a diagnosis of the level of exposure the critical infrastructure of a network has in the event of an attack that would affect its operation. Other services include: Security Consulting, Managed Intrusion Detection and Prevention Services, Managed Web Filtering and Firewall Services, designed for businesses requiring controlled web access, comprehensive multi-layer protection and all-in-one security that controls, detects, mitigates, monitors and provides secure perimeter access. The service is offered through the Security Operation Center (SOC), where the security of services is monitored 7x24, as well as threats worldwide so that preventive actions can be taken to safeguard customers' information.

Cloud

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

- Services that offer virtual or physical servers in a rental scheme.
- Services of containers, serverless and new generation applications development environments.
- Services that offer the customer the option to acquire on-demand computing resources, flexible server configurations, RAM and information storage.
- Access to ERP (Enterprise Resource Planning) "All in One" version of SAP and S4 HANA, across a cloud service scheme that allows the customer to obtain savings by not having to purchase said system.
- Comprehensive infrastructure management services that include the design, implementation and operation of complex computing solutions in high availability environments prepared to handle natural disasters ("DRP").
- Corporate e-mail, a platform that offer customers personalized and accessible e-mail addresses from fixed and mobile devices.
- Generation of server backups in a fast way that allows the assurance of information through a platform available under a "as a service" scheme.
- Storage as a service for hosting and the execution of applications under an "on demand" scheme.
- Cloud Backup for secure, periodic and automated backups.
- Virtual desktops to remotely access your desktop and applications from any device.
- Public Cloud Services (Iaas, PaaS, SaaS) based on the largest global public clouds in a managed service format.
- Cloud consulting and environment migration services. Service that offers to promote the use of public clouds by taking advantage of new trends in application creation, migration and adoption of the cloud, application coding tools, among others.
- Hybrid cloud solutions combining functions from public clouds outside of Mexico, including the building of dedicated links to guarantee the security and efficiency of the solutions.
- Help Desk Service, which is a single point of contact for end users that manages incidents, requirements and problems related to IT services.
- Application Management: solutions that provide specialized management of IT services accompanied by a complete operational model of monitoring and management based on the best practices in the industry. In this solution, clients delegate the operation of their critical applications in a way that they are provided with an outsourcing service for operation, monitoring, incident management, problems and changes of business applications such as an ERP, CRM, databases, among others.

- Processes Digitalization: Are robot applications, including software (RPA), that offer to automate repetitive tasks of processes.
- Site Supervision and Management (IoT): Is a service that offers real-time monitoring of all objects or people located at a site, warehouse, factory, load truck, among others. The platform offers real-time location as well as alarms and analytical tools.

Collaboration

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

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

Alestra Móvil:

First enterprise MVNO in Mexico, highlighting its promise to the market and main differentiator that is the guarantee of the highest availability in the market and the highest level of security and flexibility. Alestra Móvil is a mobile voice and data service with important differentiators:

- Unique mobile platform supported by a Multi-operator network
- Offer of professional applications
- Wide range of à la carte solutions
- 360 shielding with device, connection and content protection
- Management tool for devices and applications with autonomy capacity

2.4) <u>Advertising and Sales</u>

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

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

2.4.1) Sales Channels and Strategies

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

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

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

Technology is constantly evolving and therefore, by over a decade the interaction among Alestra's clients and their technology suppliers has been enabled through Alestra's Centers of Experience (*Centros Sperto*). This collaboration spaces aim to show customers the cutting-edge technological solutions of the families of services in an experiential way. Axtel has four *Centros Sperto* in Monterrey, Querétaro, Mexico City and Cancún.

In 2022, Centro Sperto returned to the face-to-face format, it had visits from more than 500 companies and around 1,500 visitors. There was participation of 75% of the sales force that accompanied their clients during the presentation of the solutions. Centro Sperto released during 2022 on the digital platforms "Sperto First Row", an unboxing program to show the solutions that Alestra manages, holding 3 sessions. Additionally, more than 15 tech days were held in conjunction with technological partners; Focused webinars were held and 6 editions of the digital magazine "Sperto Magazine" were held, where technological trends were presented to the organization.

2.4.2) Client Experience

Axtel developed the necessary technology to ensure that service, response times and experience always meet the expectations of its external and internal customers. 20 new initiatives focused on improving the digital experience of customers were implemented.

As part of its omnichannel strategy (integration of channels offering the same experience), in the middle of the year it enabled the WhatsApp business channel so that the client self-manages information requirements for their account and can follow up on their technical incidents; with this, 10% of customer interactions were received.

It offers its clients *Alestra One Touch,* an auto service portal available online so that they can upload technical and administrative requests and find out their status, as well as information of accounts balance, Invoices, payment complements, active services and orders in progress. More than 11,000 users are registered and interact with the self-service portal*.*

In 2022, *Alestra One Touch* was strengthened with new sections in the web and mobile version, made the technical support section more intuitive and enabled an Ale bot intelligent bot to facilitate the use of the portal. At the end of the year, 48% of interactions with customers were done through a digital channel, which reflects the adoption of its self-service strategy.

Furthermore, it continues with the calendars of annual visits to its clients to provide proactive and consultative attention to detect in a timely manner any failure, incident, or dissatisfaction with Axtel services. This initiative allows it to maintain closeness with the client.

The result of this set of initiatives was reflected in an increase in customer satisfaction compared to 2021, in addition to higher percentages than the target set for 2022.

Net Promoter Score (NPS)

Interested in knowing the customers' expectations and their level of satisfaction, especially as a result of these improvement initiatives, the application of NPS surveys continued, allowing Axtel to set a 45-points satisfaction goal per segment and monitor the results. In 2022, it exceeded all the NPS objectives set, obtaining the following results: 58 points in Alestra, 73 in Axtel Networks, 65 in federal government and 81 in state government market.

2.4.3) Supply Chain

The main equipment for the provision of services comes from various telecommunications and information technology providers and there is no volatility in prices, however, most of the equipment presents mainly inflationary adjustments on an annual basis.

The equipment is acquired under two criteria: i) for recurring use and high rotation equipment, an inventory is maintained and ii) for specialized equipment for projects tailored to the client, equipment is acquired by event.

In the case of recurring inventory, there are variations in inventories based on expectations of increased consumption, obsolescence, or variation in supplier delivery times; however, its value does not represent a significant impact on working capital. On the other hand, the collection conditions are standard for most clients and only in special cases are additional terms assigned, which are compensated with the payment conditions negotiated with the main suppliers.

The quality and sustainability of the solutions provided by the Company is closely linked to the decisions made in its supply chain. In this regard, Axtel works with the suppliers always in line with policies, requirements and evaluations that consider environmental, social and governance matters (ESG) that are key for its stakeholders.

For this reason, it requests its suppliers to adhere to the Supplier Selection Policy and the Code of Ethics from Axtel, in addition to complying with the Official Mexican Norms, with municipal, state and federal regulations and laws, as well as with the provisions of official agencies such as *Protección Civil*, *Secretaría del Trabajo y Organización Internacional del Trabajo (OIT)*, among others. In this way, Axtel procures its supply chain to be aligned with its integrity and sustainability standards.

To ensure that its suppliers understand and apply Axtel's standards in terms of sustainability, safety, hygiene and occupational health, during 2022 the company evaluated six suppliers on environmental topics and 81 new suppliers on social affairs, without finding real negative impacts. It did not identify suppliers at risk of presenting cases of child labor, nor of forced or compulsory labor.

In addition, the company identified the suppliers that are critical to its operation based on criteria such as the highest recorded level of annual purchases, high sensitivity in the business, complexity and generally a high cost for their replacement. Considering these elements, 2% of Axtel's suppliers are critical for its operation, since 27% of the total amount of its purchases are destined to their companies.

Axtel seeks that most of its transactions are with local suppliers to promote local interaction and the strengthening of the national economy. The proportion of spending allocated to suppliers according to their origin was: 17% foreigners and 83% nationals.

2.5) <u>Patents, Licenses, Trademarks, other Contracts and Certifications</u>

2.5.1) Company's Concessions

Background:

- In 2018, Axtel acquired the right to charge mobile interconnection fees so that, as a Full Virtual Mobile Operator, it could have the right to charge mobile interconnection fees; it promoted interconnection procedures with mobile and fixed operators.
- At the end of 2020, the Company began mobile service operations through Alestra Servicios Móviles; reference offers were made with Telcel to provide Mobile Telephone service under the figure of Full Virtual Mobile Operator (*"OMVC"*); this agreement allows interconnection with all mobile and fixed operators.
- In 2022, Axe Redes e Infraestructura "ARI" obtained authorization from the IFT to market services under the Axtel concession. ARI will focus on the deployment of FTTH infrastructure.

<u>About the concessions:</u>

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

a. basic local and international telephony services
b. the sale or lease of network capacity for the generation, transmission or reception of data, signs, writings, images, voice, sounds and other information of any nature;
c. the purchase and lease of network capacity from other carriers, including the lease of digital circuits;
d. operator services;
e. data, video, audio and videoconference services;
f. mobile telephony and mobile internet service (as Full Virtual Mobile Operator)

g. message delivery service (SMS);
h. point to point and point to multipoint links; and
i. Digital Transformation services (Cloud, cybersecurity, mobility and collaboration); and
j. Value Added services (System integration and managed services)

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

The following is a summary of the concessions:

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

ALESTRA SERVICIOS MÓVILES)			
Concession Titles	**Services**	**Coverage**	**Term**
Single Concession for Commercial Use	Provision of any telecommunications and / or broadcasting service that is technically feasible.	National	**Duration:** 30 years **Bestowal Date:** Apr-02-2018 **Expiration Date:** Apr-02-2048

AXTEL (POSSESED A TELECOMMUNICATIONS PUBLIC NETWORK CONCESSION THAT CONVERTED INTO SINGLE CONCESSION FOR COMMERCIAL USE)			
Concession Titles	**Services**	**Coverage**	**Term**
Single Concession for Commercial Use	Provision of any telecommunications and / or	National	**Duration:** 30 years **Bestowal Date:**

	broadcasting service that is technically feasible.		Nov-08-2000 **Expiration Date:** Nov-08-2030

2.5.2) Main Trademarks

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

TRADEMARK	REGISTRY NUMBER	EXPIRATION	OWNER
AXTEL (blue design)	1,662,025 1,668,824 1,662,026	April 07, 2026	Axtel, S.A.B. de C.V.
Alestra	511,656	November 01, 2025	Axtel, S.A.B. de C.V.
Axtel	584,421	July 13, 2028	Axtel, S.A.B. de C.V.
AXTEL NETWORKS	2,171,990 2,171,991	July 31, 2030	Axtel, S.A.B. de C.V.
AXNET AXTEL NETWORKS	2,171,988 2,171,989	July 31, 2030	Axtel, S.A.B. de C.V.
AXNET	2230367	April 12, 2031	Axtel, S.A.B. de C.V.
HOC HOLISTIC OPERATION CENTER	1284311	December 6, 2031	Axtel, S.A.B. de C.V.
SPYDER PERFORMANCE	1420839	December 8, 2031	Axtel, S.A.B. de C.V.
MDM CLOUD	1344418	August 8, 2032	Axtel, S.A.B. de C.V.

2.5.3) Wholesale Services - Links, infrastructure sharing, unbundling and Interconnection

Axtel has entered into agreements with the Preponderant Economic Agent (*"AEP"*) to use services and infrastructure and complement its network, in such way it can provide telecommunications services to end customers in areas where it does not have coverage; the agreements are in force and are updated annually based on the resolutions issued by the IFT for:

- Sharing fix and mobile passive infrastructure (e.g. poles, ducts, rights of way and towers);
- Leasing of dedicated links;
- Resale and unbundling of all the services provided through Telmex's local network;
- Resale of mobile services, voice, data and SMS, as a Mobile Virtual Network Operator (MVNO); and
- Leasing dedicated links from Telmex.

The prices and conditions for these services are the ones established by the IFT for Telmex and Telcel, respectively, and each year they can be modified by the same authority through the filing of the disagreements provided for in the Preponderance Measures and in the Federal Telecommunications Law and Broadcasting, using costing methodologies such as "Avoided Costs" or "Long-Term Incremental Costs" methodologies, depending on the type of service.

At the end of 2020, the Company has signed the reference offers with Telcel to provide Mobile Telephony service under the figure of Complete Virtual Mobile Operator ("OMVC") and signed an agreement to use the ALTÁN network, while in May of 2021, it signed the agreement in the same sense with AT&T Comunicaciones Digitales, S. de R.L. de C.V.

2.5.4) Technological Certifications

Being part of an industry in constant evolution, being backed by expert certifications and being part of the most complete network of global technology partners in the market, gives Axtel the necessary strength to offer its customers a complete portfolio of technological and avant-garde solutions.

As of the date of this Annual Report, the Company has technical certifications from Amazon, Assure, ISC, ISO, Oracle, Cisco, Palo Alto, Checkpoint, Fortinet and Avaya, among others, which represent the commitment to matters that concern the industry.

Management Systems:

- ISO 9001:2015
- ISO 20000-1:2011
- ISO 27001:2013
- ISO 22301:2012
- ISO 37001:2016
- ISO 31000:2018

Best Practices:

- ICREA – Levels 3, 4 and 5
- CEEDA Silver and Bronze
- First
- SSAE-18
- PCI DSS

Partners Certifications:

- Aspect, Channel Sales Agreement
- Audio Codes Gold Partner
- Avaya Diamond Partner
- AWS, EC2 for Windows
- AWS, Public Sector
- AWS, SAP Services Competency
- AWS, Solution Provider
- AWS, Advance Consulting Partner
- AWS, Select Direct Connect Service
- Checkpoint, Three Stars Partner
- CISCO, Gold Integrator
- CISCO, Gold Provider
  - CISCO, Advanced Collaboration Architecture Specialization
  - CISCO, Advanced Data Center Architecture Specialization
  - CISCO, Advanced Enterprise Networks Architecture Specialization
  - CISCO, Advanced Security Architecture Specialization
  - CISCO, Hyperflex Specialization
- Dell Technologies, Platinum Partner
- Equinix, Platinum Partner
- Fortinet, MSSP Expert Partner
- HPE, Solution Provider Gold Partner
- Huawei, Enterprise Partner VAP
- Huawei, Four Stars Partner
- IBM, Service Provider
- Microsoft, Gold Cloud Platform
- Microsoft, Gold Cloud Productivity
- Microsoft, Gold Partner
- Microsoft, Hosting Partner
- Nutanix, Champion Reseller
- Oracle, OPN Member, License & Hardware / Cloud Solution Provider
- Palo Alto Networks, MSSP Platinum Innovator Partner
- Poly, Platinum Partner
- SAP MCaaS Partner
- Symantec, Premier Partner
- Veeam Pro Partner Silver Reseller
- Veritas Registered Partner
- VMWare Cloud on AWS Solution Competency
- VMWare Cloud Verified
- Zoom Performance Partner

In 2022, the Company acquired the following awards on behalf of its partners:

Fortinet

- Northern region´s MSSP of the year 2022

AWS

- Partner Marketing of the Year Mexico 2022

Nutanix

- Rookie of the Year

Poly	Cisco	Huawei
- Poly Platinum Best Financial Project - Best Integrator of the Year	- Marketing Partner of the Year	- Fast Growth Carrier Partner of the Year 2022

In 2022, 125 employees obtained 208 certifications in different technologies and technical knowledge by institutions such as Amazon Web Services, Avaya, CISCO, EC-Council, Fortinet, ISACA, ISO, ITIL, Microsoft, PMP, SCRUM, Six Sigma and Kanban.

2.6) <u>Information Security</u>

Axtel considers it is extremely important to protect its services, as well as the confidentiality of the information it manages. For this, it has an Information Security Management System whose main objective is to maintain the integrity and confidentiality of the information.

Framework and information security processes

- Cybersecurity culture: awareness and training for employees
- Cyber resilience: risk management and business continuity
- Cyber defense: management of vulnerabilities, identities and access; technical compliance
- Incidents response
- Security Architecture
- Security by design
- Revisions: indicators monitoring, audits, certifications and *pentest*
- Continuous improvement

The company is governed by the best information security practices defined in different international standards such as ISO 27001, ISO 22301, ISO 31000,the Service Organization Controls (SOC) for Cybersecurity, the National Institute of Standards and Technology (NIST), FIRST, PCI-DSS and SSAE-18.

In addition to the best practices, to identify the most relevant risks in information security that the company could face and be ready with timely remediation plans, it carries out internal and external reviews, audits, evaluations of vulnerabilities, penetration tests, drills and work meetings with the actors of each business process and with the Information Security Committee, led by the General Management, where decisions and actions on Information Security are made.

Customer data privacy

The personal data that is used at Axtel, comes from the owner directly and/or through physical, electronic or presential means, as well as authorized public sources; and is treated according to the type of owner. Sensitive personal information is not transferred, nor patrimonial or financial data for secondary purposes, unless the owner expresses consent.

Axtel is a company committed to protecting the privacy of its customers' data. To ensure the privacy of this data, the Company has adopted appropriate physical, technical and organizational security measures. Some of these measures include: Data Encryption, Restricted Data Access, Privacy Policies and Vulnerability Management.

In addition, being aware that the privacy of its customers' data is an issue that is becoming increasingly relevant, Axtel maintains a commitment to manage them in a timely and efficient manner, which is communicated in its Disclosure Agreement.

During 2022, the Company did not receive complaints for violations of customer privacy, neither of data leaks or data related to personally identifiable information.

2.7) Research and Development - Innovation

For Axtel, innovation is the engine through which it designs differentiated solutions for its clients, but also manages to encourage the company to evolve its internal processes to be increasingly efficient.

The Axtel Innovation Model, for more than 10 years, has allowed it to generate value for its clients and collaborators with the leverage of technology.

Axtel's Innovation Model

Axtel's Innovation Model has allowed value generation for its clients and employees. From the model, four initiatives emerge that facilitate the implementation of innovation to be applied in solutions and services for its clients, or within the organization.

Innsight

It is a digital platform for innovation and continuous improvement, where collaborators propose ideas for them to be evaluated to receive resources to allow their implementation. During 2022, Innsight registered a 40% employee participation, with initiatives that contributed to an economic benefit of Ps. 323.5 million in EBITDA and CAPEX.

Innovation Hub

It is a physical space where creativity and ideas are structured to develop solutions and is located in the Innovation and Technology Campus (CIT). In the year 2022, the Hub was occupied at 70% of the available working time with more than 300 reservations for projects, training, events and customer visits, among others.

NAVE

It is a program that encourages innovation and the development of disruptive digital innovation projects. Through this program, scaleups and B2B technology startups were promoted, in addition to generating business alliances with different proposals that, by means of digitalization, help the Company increase customers' productivity.

During 2022, the companies that graduated from the program were monitored, seeking to strengthen and mature their value proposition in the Mexican market.

Axtel Labs

It is a research and development laboratory where emerging technologies are explored and experimented with the aim of creating digital products and services to launch them on the market.

In 2022, strategic projects aligned with the research and development of products that seek to generate new lines of business for the organization were carried out.

2.8) Main Customers

Axtel, under its brand Alestra, has in its portfolio more than 12 thousand enterprise customers, including national and multinational corporations, large and medium-sized companies from the financial sector, retail, education, manufacturing, among others, as well as federal, state and municipal entities and dependencies from the government sector. Axnet has wholesale customers, mobile and fixed operators (national and international) internet giants, data centers and tower operators.

In 2022, the top ten customers represented 22% of the Company's revenues. The two largest customers accounted for 5% and 4% of total sales, respectively. No other customer represented more than 5% of Axtel's total revenues.

2.9) Applicable Legislation and Tax Situation

2.9.1) Applicable Law in the Telecommunications Industry

General

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

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

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

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

Regulatory framework for concessions

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

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

Additionally, authorized marketers will have the authority to:
- Access wholesale services offered by concessionaires; and
- Market their own services or provide telecommunications services as resellers.

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

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

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

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

- Failure to comply with the obligation to retransmit television signals of restricted networks, free of charge and on a non-discriminatory basis;
- Refusing to retransmit broadcast content;
- Change in the nationality of the concessionaire or initiating action to request protection from a foreign government;
- 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;
- Failure to pay to the Federal Treasury any amount due as fees owed to the Federal Government;
- Failure to comply with the basic obligations for granting the concession;
- Not providing the guarantees or assurances established by the IFT;
- Changing the location of the broadcast station without prior authorization from the IFT;
- Change the assigned bandwidth frequencies without authorization from IFT;
- 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;
- Failure to comply with resolutions issued by the IFT in conduct cases linked to monopolistic practices;
- Any case of dominant or preponderant economic agents that benefit directly or indirectly from the free retransmission rule of television signals through other operators;
- Failure to comply with resolutions or determinations of IFT regarding the accounting, functional or structural separation;
- 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;
- 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
- Any other provision set forth under applicable law.

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

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

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

fixed, local and mobile services) are freely determined by the providers of such services, in terms that allow the provision of services in satisfactory conditions of quality, competitiveness, security, retention and non-discrimination.

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

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

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

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

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

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

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

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

2.9.3) Income Tax (IT)

The Company is subject to the legislation applicable to variable capital corporations. As of this date, the Company follows all fiscal obligations under its charge and it does not enjoy any specific tax benefit, being a taxpayer of federal and local taxes in accordance with the taxation regimes provided for by the applicable legal provisions. The Company was subject in 2022, 2021 and 2020 to a legal income tax rate of 30%.

2.10) Human Resources

As of December 31, 2022, Axtel had 4,083 employees, of which 254 are on temporary contracts. Axtel does not have unionized personnel. For the years ended December 31, 2021 and 2020, Axtel had 4,237 and 4,458 employees, respectively.

2.11) Environmental, social and corporate governance commitment (ESG)

Throughout the Company's history, environmental, social and corporate governance (ESG) issues have been consistently addressed, evolving its performance in line with the organizational evolution that has been experienced in recent years. To adopt the best practices, Axtel has adhered to the most relevant sustainability methodologies, standards and initiatives for its industry to face global challenges and the 2030 Agenda. Axtel recognizes the importance of environmental, social and ethical of its long-term business decisions, so there is a strong commitment to responsible business management, which is reflected in its philosophy, values and in the way the company operates.

Axtel improved its rating in the S&P CSA questionnaire by 6 points and maintained the level in CDP with respect to 2021. In addition to this, this year the Sustainability Management and Operating Committee was created with the objective of establishing the strategic vision of sustainable development of the business and define the actions that allow maintaining and accelerating the implementation of the Sustainability Model.

To accelerate its transition towards a more sustainable operation, Axtel's Sustainability Plan was developed, which is presented once a year to the Board of Directors and the Sustainability Committee, to later be presented to the Executive Committee, so that the senior management is aware of the strategies implemented for this issue. Additionally, progress in compliance with the plan is presented on a quarterly basis.

Its main functions include establishing a strategic vision of sustainable development for the organization and defining the actions that allow maintaining and accelerating the implementation of the organization's sustainability model under the ESG index.

For 11 years Axtel has demonstrated its commitment to a more sustainable, inclusive and fair future for everyone, ratifying its adherence to the United Nations Global Compact.

2.11.1) Environmental Commitment

Axtel optimizes its processes to reduce its environmental impact. To achieve this, it operates in line with its Environmental Policy, which guides the use and management of resources within the company.

Based on this policy, there are specific policies: Energy Saving and Water Consumption, which were implemented to guarantee the responsible and sustainable use of resources.

ENERGY USE

Energy is a key resource to operate in the industry and satisfy the technological demands of its customers. Axtel uses energy mainly to energize electronic equipment, air conditioning sites and lighting spaces.

The Energy Savings Policy specifies the actions that help guarantee the efficient use of energy in accordance with the best practices in the sector and consequently, reduce its Greenhouse Gas emissions (GHG).

Shutdown of telephone centrals

To reduce GHG emissions, Axtel continues with the process of shutting down obsolete equipment telephone centrals that began in 2020. The objective is to uninstall obsolete equipment to reduce electricity consumption, consequently reducing its GHG emissions and at the same time extract raw materials and wiring for its reuse or recycling.

This initiative, in addition to generating an environmental benefit due to the tons of carbon dioxide that will no longer be emitted, represents significant savings for the business.

- 2020: 6 shut down plants that represented economic savings of Ps. 2.3 million and avoided 414 tons of CO_2e.
- 2021: 13 shut down plants that represented an economic saving of Ps. 3 million and avoided 553 tons of CO_2e.
- 2022: 1 plant shut down that represented an economic saving of Ps. 0.19 million and 35 tons of avoided CO_2e. An income of Ps. 4.7 million from the sale of electronics and copper cable.

MIGRATION TO CLEAN ENERGY (KWH)

By 2023, Axtel pursues that 72% of its energy consumption will come from clean sources; in 2022 it consumed 8.81 GWh of photovoltaic energy and by 2023 it estimates to reach 15GWh; the remainder of the commitment cannot be reached due to changes in the permits of the Power Purchase Agreement. 51% of Axtel's energy consumption came from clean or renewable sources during 2022.

EMISSIONS OF GREENHOUSE GASES

For the third consecutive year, Axtel carried out its greenhouse gas (GHG) emissions inventory in order to identify and report direct and indirect emissions that resulted from its operations. This allows to lay the foundations for the improvement of its energy performance.

Scope 1 (direct emissions)

Scope 1 emissions correspond to fuel consumption and power generation at Axtel's sites (fixed sources) and fleet (mobile sources). This year, the Scope 1 direct emissions represented 11% of the total reported emissions. At Axtel, these emissions result from fuel consumption and power generation at its sites (fixed sources) and fleet (mobile sources).

Scope 2 (indirect emissions)

Scope 2 emissions derive from the purchase of electrical energy for sites and offices. This year, indirect Scope 2 emissions represented 86% of total reported emissions from its operations.

Scope 3 (indirect emissions)

Scope 3 emissions represented 3% of the emissions and those that come from the value chain, that is, that are generated indirectly. The most relevant sources of these emissions are the business trips by plane made by Axtel employees and the gasoline bonuses that are granted as a benefit to executives.

> **Trips:** During 2022, employees made national and international trips that together accumulated 3.8 million km, resulting in an indirect emission of 641 tons of CO2e.
>
> **Bonuses**: In 2022, emissions derived from gasoline bonuses delivered to executives resulted in 895 tons of CO_2e.

WASTE MANAGEMENT AND DISPOSAL

Axtel's technological solutions are intangible, this contributes to the fact that its consumption of materials is mainly for infrastructure and facilities. Following its Waste and Residue Management Policy and complying with the Official Mexican Standards and the environmental legislation in force in the country, the Company provides adequate management of the residues it generates.

Hazardous waste and lead acid batteries are temporarily stored and then sent for proper disposal and confinement through specialized suppliers.

Additionally, in 2022, it recycled 52 kilograms of paper and cardboard and prepared 50 kilograms of fiber and cardboard for reuse.

2.11.2) Social Commitment

At Axtel, it is very clear the commitment to society to promote the use of information technologies so that Mexico is increasingly connected. It achieves this with the dedication that its employees show every day in their activities to fulfill the Company's mission of enabling organizations to be more productive through digitization.

Axtel operates under flexible work models that, hand in hand with its digital transformation, have allowed the 4,083 collaborators that make up its workforce to balance their work and personal lives, improving their well-being and quality of life.

AXTEL TEAM

Axtel's human capital plays a fundamental role in creating innovative technological solutions that exceed the expectations of its customers. With the interest of integrating committed and talented people into its team, its value proposition offers attractive compensation and benefits, as well as constant training and development, a good working environment and respectful and inclusive workspaces. This offer allowed 340 people to join its workforce during 2022.

At Axtel, no gender distinctions are made, and the same entry-level salary is offered to men and women. During 2022, the ratio of the entry-level salary to the general minimum wage defined by the *Ministry of Labor and Social Welfare* (STPS) was 1.51 for men and 1.52 for women. While the ratio of the total annual compensation was 33.6 and the percentage increase of the total annual compensation was 0.8.

Axtel offers benefits that exceed what is required by law in Mexico, so that employees can improve their quality of life and have a sense of security and stability in their career.

Furthermore, 256 maternity and 30 paternity leaves were granted during 2021, of which 100% of the collaborators returned to their activities at the end of their leave and they continued within the workforce 12 months after having returned from parental leave.

The Company strives to ensure that employees who reach retirement have the necessary tools to face their lives with peace of mind and confidence; and *Cuenta Crecer* is a retirement plan in which Axtel contributes with 4% of each employee's salary. To support executives who are close to retiring, it has the Visiónate program, in which Axtel offers workshops and talks to facilitate their transition to this new stage. During the year, three executives took advantage of this benefit.

HEALTH AND SAFETY

The physical, mental and emotional well-being of employees is essential for their performance and job satisfaction, which is why Axtel strives to ensure that they feel safe at home, on site and in the company's offices.

In addition, to guarantee safety and health in the company, it has a Safety and Hygiene Commission, which represents 100% of its collaborators and focuses on monitoring safety measures, managing possible health crises, inspecting spaces and conduct investigations related to workplace accidents. It also has a Security Committee and a group of Civil Protection Brigades to monitor security measures.

Axtel uses the following security guidelines that are fundamental for the identification and evaluation of health, social and environmental risks: (1) The tasks and activities are described by job positions. (2) The Task Safety Analysis format is applied to identify risk steps and classification based on their probability-consequence. (3) A risk matrix is established and evaluated. (4) The risk level is defined (hierarchy of control or prioritization) to establish priorities and (5) Risk mitigation and control measures (elimination, prevention and control) are proposed.

Likewise, a process was defined that, when a work incident occurs, it allows you to identify improvements in the health and safety management system to prevent future incidents.

In the last months of 2022, the Training Program for Civil Protection Brigades was carried out in Monterrey, aimed at collaborators who are part of the Immediate Response Unit for their work areas and who are responsible for guiding their colleagues on how to react in an emergency. Likewise, 72 hours of training were provided to 110 employees on topics such as building evacuation, first aid and CPR, fire prevention and combat, search and rescue.

From the inside, in Axtel the vaccination of its staff against COVID-19 and influenza has been constantly promoted. In Nuevo León, 664 employees and their families were supported with transfers to the United States border to get vaccinated in that country. Additionally, the participation in vaccination campaigns against influenza was carried out, inviting employees for vaccination through different programs in Mexico City and Monterrey. At the close of the campaigns, 1,964 vaccines were applied to collaborators and their families.

The health of employees goes beyond preventing accidents, injuries, or infections. In line with the requirements of NOM 035 Psychosocial Risk Factors at Work and seeking to improve the quality of life of its collaborators, the Comprehensive Well-being strategy was implemented, through which it seeks to create healthy and positive work environments, avoiding any form of violence, abuse, reprisals and/or discrimination, in addition to providing opportunities for development and balance between work and personal life.

In 2022, the online emotional health talks program began, where employees and their families are invited monthly to participate in sessions taught by a psychologist, where topics such as empathy, stress management, resilience, beliefs and emotions management, are covered.

COMPREHENSIVE WELL-BEING IS INTEGRATED BY THREE DIMENSIONS:

Health. With the guidelines and protocols on various topics such as psychosocial risk factors NOM 035, care for traumatic events, common diseases, financial health, self-help, stress. During the year 26 talks by specialists were held on these topics and five virtual workshops to promote family interaction, in addition to the implementation of a self-help group for employees who have experienced traumatic events or loss

Professional. The Axtel hybrid education and training model was consolidated, potentiating the advantages that technology gives and taking advantage of the opening to resume face-to-face activities; all of this with the specific objective of keeping collaborators updated and continuing to strengthen their professional development. Also, the Company continued approaching different educational partners to employees and their families. After two years of the pandemic, the trajectory of its collaborators in Monterrey, Mexico City and Guadalajara, who have completed 10, 15, 20, 25 and 30 years of work in the company, is recognized in a presential event.

Balance. With the average participation of 221 employees in monthly virtual workshops focused on finance, nutrition and care for the environment.

COLLABORATORS DEVELOPMENT

Axtel makes a great effort to support the professional growth of its collaborators, providing them with the skills and knowledge they need today and in the future. Their commitment is to promote continuous development and training to help them achieve their professional goals. The Company is committed to providing its employees with tools and resources for their continuous professional development. This includes internal training programs, peer mentoring and online certification programs.

Aware of the importance of being up to date on issues relevant to the industry and the services it provides, 125 employees obtained 208 certifications in different technologies and technical knowledge from institutions such as Amazon Web Services, Avaya, CISCO, EC-Council, Fortinet, ISACA, ISO, ITIL, Microsoft, PMP, SCRUM, Six Sigma and Kanban with an investment of Ps. 8.8 million. In addition, 150 employees took 3,403 self-managed courses with a technological and methodological focus for their functions, which is equivalent to more than 2,902 hours of training.

In addition, continuous education is promoted through online learning platforms such as Linkedin Learning and UniAlestra, its internal university, which is recognized by the Ministry of Public Education to offer certifications and master's degrees with official validity as of 2023. The collaborators from Axtel received an average of 46 hours of training, in 2022, Axtel invested Ps. 12.9 million in training for all its collaborators.

Likewise, this year it was possible to increase the participation of employees from 89% to 92% in internal institutional courses and in specialized courses through UniAlestra, exceeding by 2 percentage points the goal that had been defined for 2022 of 90%.

In 2022, Axtel organized four awareness sessions on human rights issues such as diversity and inclusion in the workplace, discrimination in the workplace and inclusive companies, with a total duration of 1,715 hours, with the participation of 3,813 collaborators, which represents 93% of the workforce.

Every two years, an organizational climate survey is applied to employees to determine how committed they feel to Axtel. The most recent survey is that of 2021, in which 2,947 employees participated, representing 70% of the workforce. The result was a commitment level of 98%.

As part of the organization's development strategy to recognize and improve the performance and management of its collaborators in a position of supervisor, leader, coordinator or boss, a self-assessment and evaluations with bosses and direct reports were applied to have feedback from the team on the Leader's behavior, in order to promote alignment with Axtel's strategy and culture. This year, 561 middle managers and executives received a leadership performance evaluation.

2.11.3) Corporate Governance

The Company's leadership is key to achieving the expected business results and maintaining itself as a sustainable and competitive company. Axtel operates following a solid governance structure, acting under a culture of integrity and transparency.

The Board of Directors is the highest governing body of Axtel and, together with the CEO, is responsible for guaranteeing the creation of sustainable value for its clients, employees, investors and suppliers through responsible decision-making, focused on the business strategy and in line with the values, ethics and integrity that define the Company.

It is integrated by 11 proprietary directors, six of which are independent, and one is alternate and is co-chaired by Álvaro Fernández Garza and Tomás Milmo Santos.

The directors were appointed and approved at the General Shareholders' Meeting on March 7, 2023, in accordance with the guidelines defined in the Securities Market Law (*LMV*), Axtel's bylaws, its Code of Ethics, OECD's Code of Principles and Best Corporate Governance Practices and the Principles of the Global Compact.

At least once a year, the Board evaluates the action plan, strategy and the metrics that are part of Axtel's sustainability plan. The Executive Committee, on its side, conformed by the Co-Chairmans, Chief Executive Officer, Chief Financial Officer and Chief Planning Officer, review such plan at least once a quarter, in which they follow up on the strategy, objectives in the environmental, social and corporate governance (ESG) areas.

Axtel's Internal Control area, under the Executive Finance Department, is responsible for documenting and managing the main risks faced by the company, as well as providing follow-up and reporting. Every year, this exercise is carried out under a comprehensive approach, where each one of Axtel's Executive Areas identifies the main existing and emerging risks, obtaining Axtel's risk matrix; which may be related to financial, macroeconomic, legal, fiscal, security, operational, cybernetic, cybersecurity, natural disasters and climate change matters.

Based on this matrix, the strategy or work plan to mitigate it is determined, those responsible of managing them are defined and the progress of the strategy is monitored. The results are presented to the Audit and Corporate Practices Committee of Axtel and ALFA on a quarterly basis. Among the risks identified in 2022 are regulatory, market and financial. Additionally, during 2022 the Company updated its materiality analysis with the double materiality component; thus, it was able to identify the risks associated with the company's material issues.

To support the functions of the Board of Directors in audit matters, Axtel has the **Audit and Corporate Practices Committee**. Which is integrated by three independent directors and is chaired by Enrique Meyer Guzmán. For more information, see the *Management and Shareholders* section of this Annual Report.

2.12) Market Information – Mexican Telecommunications Industry

2.12.1) Markets

Axtel, a company that serves the Mexican ICT market, through three segments: enterprise, government; and wholesale.

With a high focus on convergent Digital Transformation managed services (Cloud, Cybersecurity and Collaboration) and Value-Added solutions (System Integration and Managed Services), Axtel has positioned itself as a brand that has the experience, infrastructure and leading services to energize the ICT industry and contribute to the development of a new generation of more innovative, efficient and competitive companies. This is backed by strong partnerships with world leading technology partners and a service philosophy that strives for excellence.

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

Enterprise market penetration by service

Service	Market Penetration '22 (%)
Telecom	**19%**
Connectivity and Managed Networks	17%
Voice and Data	32%
Collaboration	13%
Information Technologies	**5%**
Cybersecurity	8%
Data Centers and Cloud Services	5%
System Integration	4%

**Company estimates with information from third parties including industry analysts, such as IDC, Gartner, and Select.*

2.12.2) Market Size and Projected Growth

According to industry analysts, including IDC, Gartner, Frost & Sullivan and Select, the Mexican Telecommunications market generated Ps. 86 billion in 2022, a 3% annual increase. For the next 3 years, the Information and Communication technology market is expected to have an annual compounded growth of 4%; mainly driven by double-digit growth in Cloud Services, Cybersecurity and Collaboration.

The Mexican infrastructure addressable market for Axtel Networks is estimated to be around Ps. 14 billion for 2022 and a 3% annual growth is expected for the next 3 years; mainly driven by fiber growth.

2.12.3) Competition

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

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

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

Kio Networks. This company provides an information technology and infrastructure portfolio. It has data centers located in Mexico, Central America, the Caribbean and Europe. In August 2021, the US investment manager I Squared Capital bought all its shares.

Megacable. It provides internet services, paid television, fixed and mobile 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 2022, it issued debt certificates for 7 billion pesos that will be used to refinance existing debt.

Totalplay. The company is part of Grupo Salinas and offers internet access, pay TV and telephony services, through its fiber optic network, to the residential segment. Through its enterprise segment, it serves government and corporate institutions with multiple telecommunications services.

Competitive position – Positive aspects:

Axtel is the leading service provider in the business segment in Mexico with more than 25 years of experience in the market consolidating technological innovation, strategic alliances and high specialization in global technological trends.

Axtel has a focus on target markets, providing a high level of specialization and customer service through its businesses, Axtel Networks with a focus on Infrastructure for wholesale customers, and Alestra with a focus on services to the enterprise and government segments.

The strength of Alestra's service portfolio is a market differentiator due to its broad technological coverage based on 8 service families: Connectivity and Voice, Managed Networks, Collaboration, Cybersecurity, Cloud Services, Systems Integration, Digital Transformation and Mobility. Added to this portfolio is the ability to offer them as a managed service, which provides added value to the customer base.

Axtel Networks has an extensive metropolitan and long-distance fiber optic network that provides a unique position to offer world-class services that meet the needs of transporting large volumes of data with maximum performance.

Axtel is recognized for being the first provider of cloud services in Mexico, having the first experience center in Mexico and Latin America (13 years of operation), being the only one to offer a Mobility solution in Mexico with a total connection guarantee and have more than 60 leading technology partners globally.

Competitive position – Negative aspects / risks:

Global and Mexican economic and political conditions may adversely affect business and financial performance. Likewise, the telecommunications industry in Mexico is very competitive, which is why Axtel always seeks to offer differentiators in its service offering to maintain its technological leadership.

On the other hand, there is significant pressure on rates, especially connectivity services. Axtel year after year increases the base of services and their capacity to mitigate this risk.

If any of the suppliers does not provide the services, technologies and/or equipment, it could negatively affect the Company's results of operations. Therefore, contracts, service standards and operating agreements with suppliers are essential to guarantee the promise to customers.

Loss of market share or revenue from government sector customers could have a negative impact on the financial condition and results of the operation. Due to the above, Axtel has restructured its service to this market segment in order to serve federal, state and municipal agencies.

2.12.4) Reforms in Mexico's Telecommunication Sector

Constitutional Decree: On June 11, 2013, the "DECREE amending and adding various provisions of articles 6, 7, 27, 28, 73, 78, 94 and 105 related to telecommunications matters of the Political Constitution of the United Mexican States was published in the *DOF*", by which reforms were created to promote healthy competition and free concurrence in the sector.

AEP Resolution: On March 6, 2014, the plenary session of the IFT approved the "Resolution by which it determines that the economic interest group integrated by América Móvil S.A.B DE C.V, Telefónica de México S.A.B DE C.V and Telefónica del Noreste S.A. DE C.V, Radiomóvil DIPSA S.A.B DE C.V, Grupo Carso S.A.B DE C.V and Grupo Financiero Inbursa S.A.B DE C.V as Preponderant Economic Agent in the Telecommunications sector ("*AEP*") and imposes necessary measures to prevent affecting competition and free concurrence".

The concessionaire companies of the Preponderant Economic Agent (Telmex, Telnor and Telcel) have the following obligations towards other concessionaires:

- The sharing of its fixed and mobile passive infrastructure (for example: use of poles, pipelines, rights of way and towers, to mention the most relevant).
- Lease of dedicated links.
- The resale and unbundling of all the provided services through the Telmex local network.
- The resale of mobile voice, data and SMS services through the figure of the Mobile Virtual Operator (MVNO); and
- The national and international visitor user agreements (roaming) that Telcel had signed with other carriers.

Law Decree: On July 14, 2014, it was published in the *DOF* the "Decree by which are issued the Federal Telecommunications and Broadcasting Law; and various provisions on telecommunications and broadcasting are reformed, added and repealed".

On August 13, 2014, the *Ley Federal de Telecomunicaciones y Radiodifusión* (*LFTR*). It became effective, empowering 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 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 intermediate services to other concessionaries;
- To provide annual information regarding its wired, wireless and broadcast network, including its development and modernization plans, as well as its infrastructure;
- To allow other operators, disaggregated access to its network and infrastructure on a basis of nondiscriminatory rates and which do not exceed those rated authorized by the IFT;
- To allow other operators to resell its services;
- To not discriminate between the interconnection traffic of its own network and the interconnection traffic of other concessionaries;
- Provide its services observing the minimal quality standards set forth by the IFT;
- To not establish obligations, penalty fees or restrictions of any kind that may result in the inhibition of the consumers;
- Provide to the IFT detailed accounting information, separated by each service offered;
- Offer and provide services to the other concessionaries, in the same terms, conditions and quality as offered to itself; and
- Abstain from establishing technical or any kind of barriers that may block the development of infrastructure of other concessionaries.

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

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

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.

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

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

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

- Elimination of charges for national long-distance calls, effective January 1, 2015;
- Opening of the mobile telephony market to new service providers, through the Mobile Virtual Network Operator figure;
- Opening of the industry to foreign investment of up to 100% in telecommunications and 49% in broadcasting activities;
- Access to advertising in an equitable and non-discriminatory basis;
- Introduction of certain rights to the users through the participation of the Procuraduría 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.

Biennial Resolution: On February 27, 2017, the IFT approved the resolution by which it suppresses, modifies and adds the measures imposed on the Preponderant Economic Agent by the resolution of March 6, 2014.

Implementation of the functional separation: On February 27, 2018, the plenary session of the IFT resolved on the Final Implementation Plan for the Functional Separation, which established, among other elements, the terms and conditions under which Telmex and Telnor had to implement the functional separation during the transition period, which expired on March 6, 2020.

T-MEC: In December 2019, the governments of Mexico, Canada and the United States reached an agreement to sign modifications to the Free Trade Agreement called T-MEC. This agreement considers the main measures applicable to telecommunications in Mexico, intended to promote healthy competition through an autonomous entity. On the other hand, various principles are also included in the agreement to facilitate digital trade, which will encourage the services and goods availability through information and communication technologies.

Second Biennial Preponderance Resolution: On December 2, 2020, the Plenary of the Institute approved the "Resolution whereby the Plenary of the *Instituto Federal de Telecomunicaciones* suppresses, modifies and adds measures imposed on the preponderant economic agent in telecommunications". As a result, the possibility of granting tariff freedom in the Indirect Loop Access Service ("*SAIB*") in some geographical areas was determined, depending on the criteria and thresholds defined by the IFT.

2.13) Corporate Structure

Axtel is a public corporation whose shares are registered in the National Securities Registry and listed on the BMV through Ordinary Participation Certificates ("CPOs") issued under the Trust whose trustee is Nacional Financiera, Sociedad Nacional de Crédito, Institution of Development Banking. The Company is a subsidiary of Controladora Axtel, which exercises control and owns 53.9% of the shares representing the Company's capital stock, through the Trust Agreement of Administration No. 2673 held with Banco Invex, S.A. ALFA´s shareholders, meeting in an extraordinary general meeting on July 12, 2022, approved the partial spin-off of their total shareholding in the Company, as well as other assets and capital, to Controladora Axtel, S.A.B. de C.V. ("Controladora Axtel"), spun-off company. As of said Spin-off, Controladora Axtel is the controlling company of Axtel, and as of the date of this Annual Report, the corresponding authorizations are in the process of obtaining the registration of the shares of Controladora Axtel in RNV and to be listed in the Stock Exchange for its negotiation and listing in Mexico. Each one of ALFA's shareholders will receive one share of Controladora Axtel for each share they hold in ALFA. Consequently, as of the date of this Annual Report, Controladora Axtel is a company that is under the control of ALFA

The Company is an Information and Communication Technology company that serves the enterprise, government and wholesale markets, through its brands Alestra and Axtel Networks or Axnet. The business and government portfolio includes advanced solutions for managed networks, collaboration and information technology (IT) such as systems integration, cloud services, cybersecurity, among others. On the other hand, the connectivity solutions of Axnet for wholesale customers or operators include last-mile access, IP transit, spectrum, fiber to the tower and fiber to the data center, among others. In order to provide these services and carry out the Company's activity, concessions are required.

Axtel carries out its activities through subsidiary companies which it owns or in which it directly controls most of the common shares representing their capital stock.

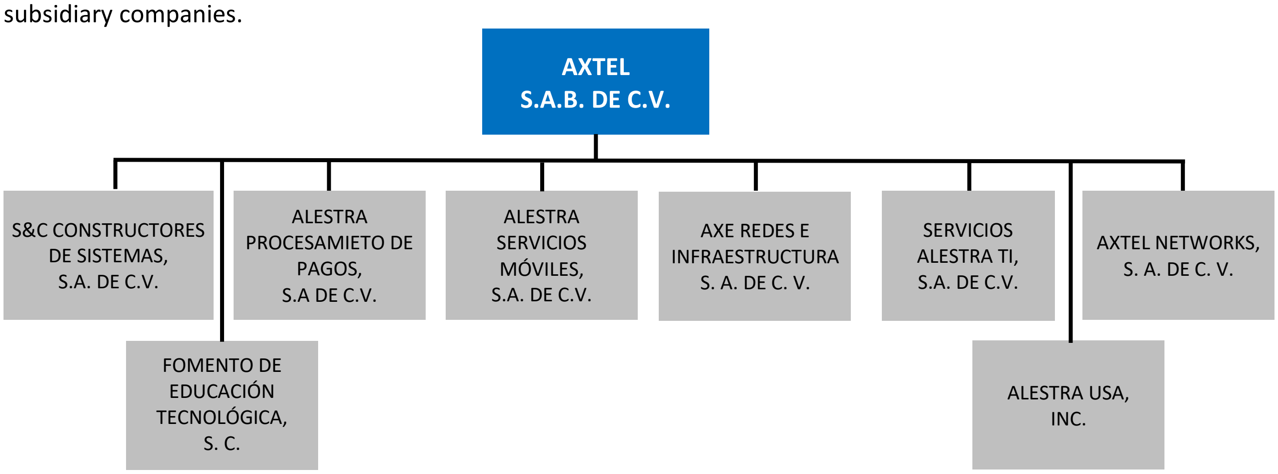
As of December 31, 2022, 2021 and 2020, the main subsidiaries of Axtel are the following:

		Percentage (%) of ownership			
NAME	**COUNTRY**	**2022**	**2021**	**2020**	**Functional currency**
Axtel, S. A. B. de C. V. (Controladora) (2)	México				Peso
Servicios Axtel, S. A. de C.V. (3)	México	-	-	100	Peso
Alestra Innovación Digital, S. de R. L. de C. V. (2) (6)	México	100	100	100	Peso
Axes Data, S. A. de C. V.(3)	México	-	-	100	Peso
Contacto IP, S. A. de C. V. (3)	México	-	-	100	Peso
Instalaciones y Contrataciones, S. A. de C. V. (3)	México	-	-	100	Peso
Ingeniería de Soluciones Alestra, S. A. de C. V. (3)	México	-	-	100	Peso
Alestra USA, Inc. (1)	USA	100	100	100	Dollar
S&C Constructores de Sistemas, S. A. de C. V. ("S&C")	México	100	100	100	Peso
Estrategias en Tecnología Corporativa, S. A. de C. V. ("Estratel") (2) (6)	México	100	100	100	Peso
Servicios Alestra TI, S. A. de C. V. (2)	México	100	100	100	Peso
Alestra Procesamiento de Pagos, S. A. de C. V. (2) (3)	México	100	100	100	Peso
La Nave del Recuerdo, S. A. de C. V. (5)	México	-	-	100	Peso
Contacto IP FTTH de México, S. A. de C. V. (5)	México	-	-	100	Peso
Alestra Servicios Móviles, S. A. de C. V. (2)	México	100	100	100	Peso
Fomento de Educación Tecnológica, S. C. (4)	México	100	100	100	Peso
Axtel Networks, S. A. de C. V.	México	100	100	100	Peso

Servicios Axtel Networks, S. A. de C. V. (5)	México	-	-	100	Peso
AXE Redes e Infraestructura, S. A. de C. V.	México	100	100	100	Peso
Allied Inmuebles, S.A. de C.V. (6)	México	100	-	-	Peso

1. Leasing of telecommunications equipment and infrastructure.
2. Provider of telecommunications services.
3. At the Extraordinary General Meeting held on December 1, 2021, the shareholders agreed to carry out the merger of Servicios Axtel, S.A. de C.V., Axes Data, S.A. de C.V., Contacto IP, S.A. de C.V., Facilities and Contracts, S. A. de C. V. and Ingeniería de Soluciones Alestra, S. A. de C. V. (as merged companies) with Alestra Procesamiento de Pagos, S.A. de C. V. (as merging company); said merger has no impact on the operation at the consolidated level of the Company.
4. Training and development services.
5. Companies liquidated in 2021.
   At the Extraordinary General Assembly held on March 7, 2023, the merger by incorporation of the subsidiaries Alestra Innovación Digital, S. de R.L. de C.V., Estrategias en Tecnología Corporativa, S.A. de C.V. and Allied Inmuebles, S.A. de C.V., in Axtel, S.A.B. de C.V.

As of December 31, 2022, 2021 and 2020, there are no significant restrictions for investment in shares of the subsidiary companies.



2.14) <u>Description of Main Assets – The Company's Network</u>

2.14.1) Facilities

All Company's properties are in Mexico. Its headquarters are in San Nicolás de los Garza, Nuevo León, Mexico. The Company's corporate office has 16,009 square meters consisting of one building (CIT). Additionally, the Company owns and leases properties in different cities of Mexico which are used for offices, work centers or warehouses, switches, call centers, etc. Properties of more than 3 thousand square meters of surface, excluding base stations, are detailed as follows:

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

2.14.2) Telecommunications Network

The Company has a network infrastructure of approximately 48,800 kilometers of fiber (including 13,400 km of capacity use agreement). Axtel provides network transport using a national fiber optic network combined with a local hybrid access designed to optimize capital investments through the deployment of equipment to access the network, based on the specific needs of each customer. The Company's access options include last mile fiber optic, point-to point and copper, all connected through 23,500 kilometers of metropolitan fiber optic rings.

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

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

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

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

Access Connectivity

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

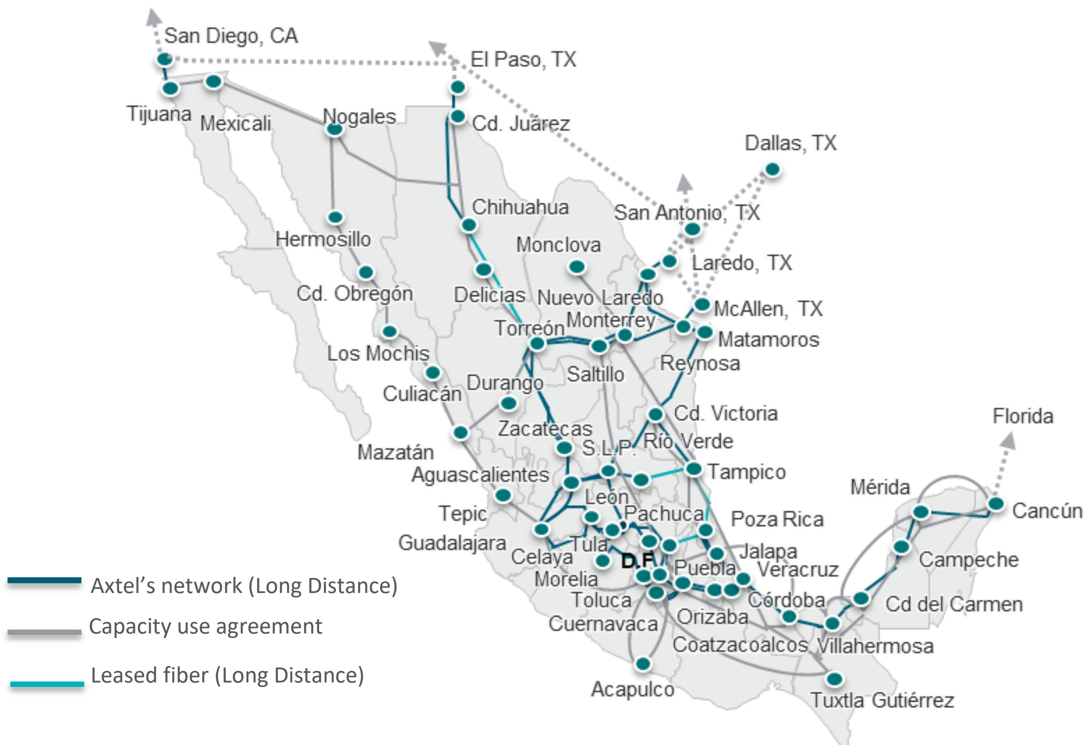
Axtel’s point-to-point access, as well as the fiber optic links, are used for customers requiring digital trunks or dedicated private lines of more than 2Mbps. The Company also uses hybrid solutions or combines multiple technologies to reach more customers by expanding service using digital fiber solutions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

Network Overview

Optic Fiber Network (km)	48,800	Last mile access (#)	~38,700
Long Distance Network (km)	23,800	Fiber connected towers (#)	2,400
Metropolitan Network (km)	25,000	POPs (#)	>1,000
Cities (#)	72	Spectrum Frequencies	7 / 10.5 / 15 / 23 / 38 GHz

Long Distance Network

Axtel's long distance transport network is approximately 23,800 kilometers in length, comprised of 10,400 km of its own infrastructure and the rest consisting of access through irrevocable right-of-use contracts that support digital hierarchical synchronization ("SDH"), optical transport network (OTN) and shipping technology through simultaneous channels through different wavelengths ("DWDM - dense wavelength division multiplexing"). SDH/OTN allow the implementation of bi-directional ring architecture, a system that allows instantaneous redirection of traffic in case of equipment failure or a fiber cut. DWDM technology allows a large transmission capacity in the same physical infrastructure by the installation of additional electronic equipment. Axtel’s transport network connects 72 cities through its own infrastructure and covers strategic cities in Mexico and the United States to provide customers with critical cross-border connectivity services through 5 international border crossings.



Voice Switching

The Company uses 7 Ribbon digital switching centers called the DMS-100to route local and long-distance traffic, 4 Ericsson AXE TL4 Digital Switching Centrals for local service, 6 next generation Ribbon Call Server 2000 switches (Softswitchs), 4 Sonus SoftSwitch that route local and long-distance traffic. It Additionally has a Broadsoft platform to offer VoIP service (SIP lines), 3 Ribbon SBC 5400 clusters that switch VoIP traffic from clients and 3 Ribbon SBC 7000 clusters that switch national and international VoIP traffic from the United States and the rest of the world. The coverage of Voice/VoIP Services is over 70 cities.

Network Administration

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

2.14.3) Network reliability – Business Continuity

Due to the nature of Axtel's business, it constantly faces various risks that may cause interruptions in the service that the Company provides to its customers, such as weather events, natural disasters, cyber-attacks, crime and technical failures, among others.

To ensure the reliability of the network, Axtel has a Business Continuity Management System that considers the necessary procedures to recover the operation at critical moments using strategies, plans and simulations that minimize the risk of impact for the company, operation and customers. It also has the necessary infrastructure to support cloud-based solutions.

Axtel is certified under the ISO 22301 standards for business continuity management and ISO 31000 on risk management, in addition to the fact that the Company operates in accordance with other international standards such as ITIL, ISO 9001 and ISO 27001. Additionally, this year Axtel provided 32 certifications to 30 employees, which allows a deeper understanding of the technologies that integrate the network and to be agile in solving challenges.

Despite the Company's efforts to avoid service interruptions, this year it registered two performance problems and five interruptions in the software and IT services provided to the customer, with an average duration of 3.3 hours, with which the total time of related inactivity was 0.69 days. This represented a slight increase in the number of incidents over 2021, but a decrease in total downtime of 0.29 days.

Through a Big Data and machine learning platform that captures all the data generated by the different network platforms, rules are created to correlate variables warning of changes in trends that may lead to a possible failure. With certain rules, the generation of proactive incidents is automated, which are analyzed and attended by the groups of the Network Operations Center, trying to prevent impacts on services.

As a result of these efforts, proactive incidents increased 84% compared to 2021, while, on the contrary, incidents with a service impact decreased by 3% compared to the previous year.

Risks of climate change, impacts on the business and indirect consequences on market trends

Environmental risks in the telecommunications industry focus on greenhouse gas emissions, water use, and natural weather conditions; the latter with a trend more specific to the geographical area than a characteristic of the sector.

The sector uses energy to power its communication networks, data centers and operations, but its scope is less intensive than that of sectors such as public services. Some of the factors that could influence an increase in energy consumption are the accelerated increase in data transmission, the transition to 5G technology, increased traffic, higher frequencies and density of antennas, and the need of a more sophisticated information processing. For this reason, the sector has focused its attention on increasing its energy efficiency to power its networks, data centers, call centers, points of presence and information technology systems.

Axtel has solid resource optimization programs, design efficiencies, certified facilities, and a greater supply of renewable energy. Based on these measures, the Company can potentially obtain a competitive advantage by transferring savings to customers and increasing its operating margins.

The transition to a low carbon environment is already taking place through greater virtualization of activities and efficiency improvements from more robust connectivity. For now, the risk towards such transition represents a neutral impact.

Incidents related to climate change

Axtel is aware that its network may be affected by incidents related to climate change such as hurricanes, frosts, floods and extreme weather, as well as other natural disasters and events caused by issues beyond the Company's control, such as power outages. In this regard, it carried out 216,464 preventive maintenance routines during 2022 in order to maintain the availability of the network and guarantee the proper functioning of its operation.

Additionally, it has a process to deal with contingencies due to climatic incidents, which is managed by a committee integrated by personnel from different areas of Axtel to ensure that the entire operation is covered upon reaction.

During 2022, 23 climatic events occurred, of which seven made landfall and demanded actions from Axtel. Thanks to this process, it was possible to maintain an optimal affectation margin that was not reflected in the service that customers received.

Life Cycle - Critical Incident:

1. Alert Phase - Network Operation Center
    - Contingency declaration, notification and identification of elements at risk
        - Attention and monitoring protocol for contingencies (earthquakes, hurricanes, power failures, extreme weather)

2. Transition phase – Field Operation
    - Gathering of teams, transportation and implementation of contingency plan.
        - Contracts with specialized suppliers for electrical failures attention
        - Minimum fuel level (70%) that guarantees a 24-hour autonomy
        - Fuel suppliers
        - Direct contacts with CFE for contingencies follow-up

3. Recovery phase – Network Operation Center + Field
    - Restoration procedures, field support management and customer coordination
        - Continuous communication scheme
        - 7x24 monitoring @ site telemetry (force, temperature, humidity)

4. Normalization phase – Network operation management
    - Impact analysis, normalization of contingencies and lessons learned.

Because of its location between the Pacific and Atlantic oceans, Mexico is extremely vulnerable to hurricanes. In 2022, the hurricanes forecast in Mexico was higher than the historical average.

Of the events predicted for both oceans, 17 were recorded in the Pacific Ocean, 14 of which we monitored and five of which made landfall; and 16 in the Atlantic Ocean, two of which made landfall.

At Axtel, we have created a culture of prevention for the hurricane season, which begins in the Pacific and Atlantic Oceans in May and June, respectively. Since March, we start conducting verification meetings, closing maintenance tasks, validating spare parts, materials and consumables, testing of emergency plants, local and remote backups of technologies, validating equipment and tools and other activities to ensure our operation during these climatic events.

2.14.4) Information Technology Systems

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

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

2.14.5) Other Topics Related to the Company's Assets

At the date of this report, no asset has been granted as collateral for any credit, therefore the Company's assets are free of encumbrances. The Company´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 has no plans to build or expand its fiber network, except those that consist of the normal maintenance and operation of the business, which will be financed with the cash flow generated by the Company.

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

2.15) Judicial, Administrative and other Legal Proceedings

In the ordinary course of business, the Company is a party to various legal proceedings. Although the results of such proceedings cannot be predicted with certainty, the Company does not believe that there is any action, claim or proceeding, pending or possible, against or affecting it, which if resolved negatively either individually or as a whole, could significantly damage its business, financial situation or operating results. Likewise, the Company is not, nor has it declared itself in any of the cases established in articles 9 and 10 of the *Ley de Concursos Mercantiles*.

Axtel is a party as a defendant in procedures and actions to be resolved. However, the resolution of such proceedings is to be expected; Therefore, considering the operation of Axtel and its type of business, there is no risk of being sentenced to pay the amounts claimed in such actions or that such procedures represent a risk to the operation of the company.

Additionally, in administrative and regulatory matters, Axtel does not appear as a defendant before any judicial instance; and in the lawsuits in which it has participation, it only participates as interested third party or complainant.

As of December 31, 2022, there are the following commitments and contingencies with respect to Axtel and subsidiaries:

Interconnection Disagreements with other Mobile Operators.

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

<u>2018 rates</u>

i. One amparo lawsuit regarding interconnection (ITX), in which Axtel S.A.B. de C.V. (Axtel), appears as an interested third party.
ii. January 2018: The Company was notified of a writ of amparo filed by Telcel against the rates of the year 2018 determined by the *Instituto Federal de Telecomunicaciones* (IFT).
iii. Current status: Dismissal due to withdrawal of Telcel before the resolution against it of the amparo under review 1091/2019 (Telcel vs. ATT) and the various amparos under review 489/2020 (Telcel vs. Alestra Innovación). Definitively concluded in a favorable sense.

<u>2019 rates</u>

i. An amparo lawsuit, in matters of ITX and virtual mobile networks, where Axtel appears as an interested third party.
ii. January 2019: The Company was notified of a writ of amparo filed by Telcel against the rates determined by the IFT, in terms of ITX and as Axtel's Virtual Mobile Operator (OMV), for the period of 2019.
iii. Current status, first instance, given the precedents resolved by the SCJN, the outlook is favorable.

<u>2020 rates</u>

i. An amparo lawsuit, in matters of ITX and virtual mobile networks, where Axtel appears as an interested third party.
ii. January 2020: The Company was notified of a writ filed by Telcel against the rates determined by the IFT, in terms of ITX and as Axtel’s Virtual Mobile Operator (OMV), for the year 2020.
iii. Current status, first instance: Given the precedents resolved by the SCJN, the outlook is favorable.

<u>2021 rates</u>

i. An amparo lawsuit, in matters of ITX and virtual mobile networks, where Axtel appears as an interested third party.
ii. January 2021: The Company was notified of a writ filed by Telcel against the rates determined by the IFT, in terms of ITX and as Axtel’s Virtual Mobile Operator (OMV), for the year 2021.
iii. Current status, first instance: Given the precedents resolved by the SCJN, the outlook is favorable.

<u>2022 Rates</u>

i. Two amparo lawsuits, regarding ITX and virtual mobile networks, where Axtel and Alestra Servicios Móviles (ASM) appear as interested third parties.
ii. January 2022: A lawsuit promoted by Telcel was notified against the rates determined by the IFT, regarding Axtel's ITX, for the year 2022.

iii. January 2022: A lawsuit promoted by Telcel was notified against the rates determined by the IFT, in terms of ITX and as MVNO of ASM, for the year 2022.
iv. Current status: In the first instance, given the precedents resolved by the SCJN, the prospective of the matters is favorable.

As of the date of issuance of the Audited Financial Statements, the Company and its advisers consider that the rates will prevail based on the resolutions obtained before the IFT, especially since the precedents resolved by the SJCN are favorable to Axtel's interests, it is estimated that an adverse scenario no longer exists.

As of the date of issuance of the Audited Financial Statements, the Company has recognized and paid the cost based on the rates determined by the IFT and there are no provisions associated with this contingency.

b. Telefónica Group.

<u>2018 rates</u>
i. Two amparo lawsuits, on ITX and virtual mobile networks, where Axtel is an interested third party.
ii. January 2018: the Company was notified of two writs filed by Telefonica against the rates for the 2018 period determined by the IFT.
iii. June 2018: the Company was notified of an amparo lawsuit filed by Telefonica against OMV's ITX rates for the period of 2018, determined by the IFT.
iv. Current status: In first instance, the suspension was lifted by instruction of the SCJN, both lawsuits are still pending.

<u>2019 rates</u>
i. An amparo lawsuit, on ITX and virtual mobile networks, where Axtel is an interested third party.
ii. June 2019: the Company was notified of a lawsuit filed by Telefonica against the rates for the period of 2019, determined by the IFT.
iii. Current status: In first instance: Given the precedents resolved by the SCJN, the outlook is favorable.

<u>2020 rates</u>
i. Two amparo lawsuits, on ITX and virtual mobile networks, where Axtel is an interested third party.
ii. June 2020: the Company was notified of a lawsuit filed by Telefonica against the rates for the year 2020, determined by the IFT.
iii. Current status: In first instance: Given the precedents resolved by the SCJN, the outlook for the matter is favorable insofar as controversial issues were defined.

As of the date of issuance of the Audited Financial Statements, the Company and its advisers consider that the rates will prevail based on the resolutions obtained before the IFT, especially since they have precedent in the Máximo Tribunal, therefore, it is estimated that an adverse scenario no longer exists.

As of the date of issuance of the Audited Financial Statements, the Company has recognized and paid the cost based on the rates determined by the IFT and there are no provisions associated with this contingency.

c. Grupo AT&T.

<u>2019 rates</u>
i. Two amparo lawsuits, on ITX and virtual mobile networks, where Axtel is an interested third party.
ii. June 2019: the Company was notified of an amparo lawsuit filed by AT&T against the rates for the period of 2019, determined by the IFT.

iii. Current status: Dismissal for inadmissibility, without challenge by the plaintiff. Definitively concluded in a favorable sense.

2020 rates

i. An amparo lawsuit, on ITX and virtual mobile networks, where Axtel is an interested third party.
ii. January 2020: the Company was notified of a lawsuit filed by AT&T against the rates for the year 2020, determined by the IFT.
iii. Current status: In first instance.

As of the date of issuance of the Audited Financial Statements, the Company and its advisers consider that the rates will prevail based on the resolutions obtained before the IFT, especially since there are precedents from the SCJN that are favorable to Axtel's arguments, therefore, it is estimated that there is no longer an adverse scenario.

As of the date of issuance of the Audited Financial Statements, the Company has recognized and paid the cost based on the rates determined by the IFT and there are no provisions associated with this contingency.

d. Interconnection disagreements with Telmex & Telnor.

2018 rates

i. Two lawsuits regarding ITX / OMV, Axtel is considered an interested third party.
ii. January 2018: The Company was notified of two lawsuits, against the rates for the year 2018, determined by the IFT
iii. Current status: The OMV trial in the first instance and the ITX trial in the second instance. Given the precedents resolved by the SCJN, added to the various litigations that Telmex/Telnor have presented and where Axtel's interests have prevailed, the matter is projected as favorable.

2019 rates

i. Two lawsuits regarding ITX / OMV, Axtel is considered an interested third party.
ii. January 2019: The Company was notified of two lawsuits, against the rates for the 2019 period, determined by the IFT
iii. Current status: The lawsuit filed against the ITX tariff was definitively concluded as favorable, while in the trial related to OMV, the suspension ordered by the SCJN was lifted, so it continues its process.

2020 rates

i. A lawsuit regarding ITX / OMV, Axtel is considered an interested third party.
ii. January 2020: The Company was notified of one amparo lawsuit, against the rates for the 2020 period, determined by the IFT
iii. Current status: In first instance.

2021 rates

i. An amparo lawsuit, on ITX and virtual mobile networks, where Axtel is an interested third party.
ii. February 2021: the Company was notified of an amparo lawsuit filed against the rates for the year 2021.
iii. Current status: In first instance.

2022 rates

i. A trial regarding ITX / OMV, has Axtel as an interested third party.
ii. January 2022: The Company was notified of the amparo lawsuit against the rates for the period of 2022, determined by the IFT.
iii. Current status: First instance.

2023 rates

i. A trial regarding ITX / OMV, has Axtel as an interested third party.
ii. December 2022: The Company was notified of the amparo lawsuit against the rates for the period of 2023, determined by the IFT.
iii. Current status: First instance.

The Company and its advisers consider that the rates will prevail based on the resolutions obtained before the IFT, especially since they have precedent in the Máximo Tribunal and a series of litigation precedents favorable to the company, therefore, it is estimated that an adverse scenario no longer exists.

As of the date of issuance of the Audited Financial Statements, the Company has recognized and paid the cost based on the rates determined by the IFT and there are no provisions associated with this contingency.

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

i. Axtel and Solution Ware participated in projects with the Government of Nuevo León, Secretariat of Labor and Social Welfare, Secretariat of Social Development, National Population Registry, National Forestry Commission, Seguros Monterrey and the Government of Tamaulipas.

Solution Ware filed various ordinary lawsuits in which it claims Axtel to pay for some purchase orders for services, as well as interest, damages and lost profits in addition to legal expenses and costs.

The lawsuit concerning the Government of Nuevo León is currently at a trial level.

The lawsuits concerning the Merger Opposition agreements, the Secretariat of Labour and Social Welfare, CONAFOR, Registro Nacional de Población, Gobierno de Tamaulipas and the Secretariat of Social Development definitively concluded in favor of the Company.

At the date of issuance of the of Audited Financial Statements, the Company and its advisors believe that there is no real likelihood that this claim will succeed. Therefore, there are no book provisions associated with this contingency.

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

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

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

In October 2020, ION obtained a favorable protection, managing to modify the sentence in his favor to collect $ 12,199 from Axtel; however, The Company has made the corresponding reserve to face this contingency.

In 2022, the Company obtained an amparo ruling in its favor, obtaining the modification of the sentence against it.

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

iii. By May 2019, the ASF determined a compensation liability of $34,118, which was challenged by the TFJA, which, in April 2021, issued a judgement against the interest of the company, which is why an amparo proceeding was filed, it was resolved by determining not to protect the company.

An appeal for Review was filed and admitted before the SCJN, this matter is being processed.

In relation to the above, in December 2019, the SAT notified the company of an update and surcharges for Ps. 45.3 million, a decision that was challenged through an administrative trial, which is suspended together with the administrative enforcement procedure until the SCJN resolves the main matter. The tax credit is guaranteed.

In this sense, the Company and its advisors consider the possibility of obtaining a result with an average favorable prospective for both lawsuits.

Litigation between Axtel and the Welfare Ministry.

iv. In 2022, Axtel filed an annulment lawsuit before the Federal Court of Administrative Justice, against the Welfare Ministry, in which the payment of $24,392 is claimed for the provision of services in the year 2020.

The matter is pending in the first instance.

In this sense, the Company and its advisers consider the possibility of obtaining a result with favorable prospects for such trial.

Other contingencies and notes:

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

Derived from the Covid-19 health emergency, the SCJN, the Federal Judicial Branch, Federal Courts and Local Courts, suspended conditions and terms in various periods of the years 2020 and 2021, thus causing a delay in the procedures and resolutions of the matters where the Company is part of.

2.16) 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 portion and may have a variable portion. As if the date of this Annual Report, the capital stock of Axtel, being the fixed minimum with no right to withdrawal is the amount of $454'620,882.31, represented by 19,824,236,117 ordinary, nominative shares, without expression of nominal value, of Class "I" Series "B", fully subscribed and paid; and does not have shares issued or subscribed in its variable part. Axtel and its subsidiaries may not own Shares representing Axtel's capital stock, notwithstanding the foregoing, in certain cases, the Company may repurchase its own Shares.

Repurchase of Shares

In accordance with the provisions of the LMV, the Company's bylaws provide for the possibility for Axtel to acquire its own shares on the BMV at the quoted market price at that time. The Repurchase of Shares will be on the account of the stockholders' equity of the Company if the Shares stay in possession of Axtel, or on the account of the capital stock if the repurchased Shares are converted into treasury shares. The ordinary general meeting of shareholders will have to approve the total amount destined for the purchasing of own Shares for each fiscal year, amount which shall not exceed the total amount of net income of the Company, including the retained earnings. The Board of Directors must designate the persons responsible for carrying out said repurchase of Shares, as well as their sale. The repurchased Shares shall not be represented at the shareholders' meetings. The repurchase of Shares will be carried out and will be reported and disclosed in accordance with applicable legal provisions.

At the Ordinary General Shareholders' Meeting held on March 7, 2022, it was approved to create a reserve for the repurchase of shares of Ps. 200 million. Additionally, it was resolved that said maximum amount of resources remains in force during the following fiscal years, unless an Ordinary Shareholders' Meeting resolves to allocate a different amount to the purchase of its own shares. For the year ended 2022, no share repurchases were made.

At the Ordinary General Stockholders' Meeting held on March 5, 2021, a reserve for the repurchase of shares of $200 million pesos was approved. For the year ended December 31, 2021, share repurchases were made for a total of 12,833,744 shares, which represented a decrease in the fund of $9.9 million.

At the Ordinary General Stockholders' Meeting held on February 25, 2020, a reserve for the repurchase of shares of $ 400 million pesos was approved, which was partially used. For the year ended December 31, 2020, share repurchases were made for a total of 237,843,543 shares, which represented a decrease in the fund of $213.7 million.

As of December 31, 2022, 2021 and 2020, the balance of the reserve for the repurchase of share is Ps. 200 million, Ps. 190 million and $186 million, respectively.

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

	Number of shares
Beginning balance January 1, 2020	20,074,913,404
Repurchase of shares	237,843,543
Shares as of December 31, 2020	19,837,069,861
Repurchase of shares	12,833,744
Shares as of December 31, 2021	19,824,236,117
Shares as of December 31, 2022	19,824,236,117

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

At the Extraordinary General Shareholders' Meeting held on March 7, 2022, it was approved to cancel 424,991,364 ordinary shares, Class I, Series "B" representing the Company's capital stock, equivalent to 60,713,052 AXTELCPOs, from the acquisition program of own shares that were in the treasury of the Company.

As a consequence of the foregoing, the reduction of the capital stock in its fixed part in the amount of $9.7 million was resolved, an amount that is equal to the theoretical value of the canceled shares.

In 2021 and 2020 there were no variations in the Company's capital stock, therefore, as of December 31, 2021 and 2020, the number of shares representing Axtel's capital stock was 20,249,227,481 shares.

Derivative financial instruments whose underlying is shares or CPOs of Axtel

As of December 31, 2020, the Company has entered into Over the Counter (OTC) transaction agreements with Bank of America Merrill Lynch (BAML) and Corporativo GBM, S.A.B. of C.V. (GBM) called "Zero Strike Call" or options at a price very close to zero. The underlying asset of these instruments is the market value of Axtel's CPOs, the settlement method can be in cash or in shares at the option of the Company. The original term of these contracts is 6 months and can be extended by an agreement between the parties; however, as it is an American option, the Company may exercise it at any time before the expiration date. The financial instrument with GBM was exercised in its entirety during the months of May and June 2019; while the financial instrument with BAML was exercised in its entirety during the months of July and August 2020. Therefore, as of December 31, 2022, the Company no longer has such contracts.

2.17) Dividends

In accordance with Mexican law, the power to decree dividends is reserved to the Company's shareholders, meeting in a general assembly, and subject to compliance with certain quorum requirements. Generally, the dividend decree is based on a recommendation made by the Company's Board of Directors, although such recommendation is not required by law. Additionally, in accordance with Mexican legislation, the Company can only pay dividends charged to retained earnings reflected in the financial statements approved by the shareholders' meeting once the losses of previous years have been amortized and after setting aside at least 5% of its net income (after profit sharing and other mandatory deductions under Mexican law) to constitute a legal reserve until the amount thereof is equivalent to at least 20% of its capital stock.

The amount and payment of future dividends will be subject to the provisions of the law and will depend on the factors that the Board of Directors or the Assembly of Shareholders of the Company deem appropriate to take into consideration, including the results of operation, the financial situation, the capital needs, investments in acquisitions and other growth opportunities, legal restrictions, contractual restrictions established in the contracts and other documents related to the debt instruments issued by it or issued in the future, as well as the capacity of the subsidiaries of the Company to generate and channel resources to the latter. Said factors may limit or prevent the payment of dividends in the future and may be taken into consideration both by its Board of Directors when recommending, and by the Shareholders' Meeting when approving, any payment of dividends in the future.

In addition, the Company's credit agreements may contain provisions that limit the Company's ability to declare or pay cash dividends.

Currently, the Board of Directors of the Company does not contemplate adopting a fixed dividend policy. In any case, the dividends that it decrees and pays could be limited by its operating and financial results, including those derived from extraordinary events, as well as by the risks described in the "Risk Factors" section of this Annual Report, which could affect the financial situation and liquidity of the Company. In this context, the Company cannot guarantee that it will pay dividends in the future, nor the amount thereof in case they were paid.

3. FINANCIAL INFORMATION

Concept *(in thousands of pesos)*	**2022**	**2021**	**2020**
Revenues	10,479,596	11,389,494	12,355,981
Gross profit (loss)	5,315,571	5,603,766	6,184,694
Operating profit (loss)	173,872	292,248	2,772,500
Net profit (loss)	(38,814)	(796,742)	361,255
Net profit (loss) per share	(0.002)	(0.040)	0.018
Property and equipment acquisition	(1,331,461)	(1,532,512)	(2,145,806)
Depreciation and amortization	2,806,263	3,179,364	3,384,219
Total assets	18,351,397	19,974,459	23,703,845
Total long-term liabilities	12,251,419	13,594,989	14,164,681
Acc. Receivables Rotation	6.22	5.61	4.61
Acc. Payables Rotation	4.62	4.03	3.28
Inventory Rotation	62.91	64.52	77.92
Total Capital	2,850,407	2,869,856	3,495,273
Cash dividends per share	0	0	0

3.1) Selected Financial Information

On January 1, 2012, the Company adopted International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as its accounting framework to prepare and present its Audited 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, 2022, 2021 and 2020 and for the years then ended, derived from the information contained in the audited consolidated Audited Financial Statements attached to this Annual Report.

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

(in million pesos)	**Years ended January 31,**		
	2022	**2021**	**2020**
Estado de Resultados:			
Revenues	10,479.6	11,389.5	12,356.0
Operating costs and expenses (1)	(10,305.7)	(11,097.2)	(9,583.5)
Operating profit	173.9	292.2	2,772.5
Interest expense, net	(772.2)	(1,163,8)	(1,339.1)
Exchange gain (loss), net	511.3	(277.6)	(385.3)
Change in fair value of financial assets, net	—	—	105.8
Profit (loss) before taxes	(87.0)	(1,149.1)	1,153.9
Income taxes	48.2	352.4	(792.6)
Net Profit (loss)	(38.8)	(796.7)	361.3
(Loss) Profit per share:			
(Loss) Profit per basic share: Basic and diluted:	(0.002)	(0.040)	0.018
Weighted average of common outstanding shares (in millions):	19,824.2	19,829.5	19,987.6
Dividends decreed per share	—	—	—
Other Financial information:			
Depreciation, amortization and impairment of long-life assets	2,837.1	3,500.3	3,554.5
EBITDA (2)	3,011.0	3,792.5	6,327.0
EBITDA as percentage of revenues	28.7%	33.3%	51.2%

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

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

(in million pesos)	**Years ended December 31,**		
	2022	**2021**	**2020**
Statement of Cash Flows:			
Net Cash Flow from:			
Operating Activities	3207.9	3,291.6	4,207.8
Investing Activities......................	(1,207.3)	(1,268.3)	729.1
Financing Activities.....................	(2,040.3)	(3,601.6)	(2,600.5)
(Net decrease) Net increases in cash or cash equivalents	(39.7)	(1,578.4)	2,336.4

(in million pesos)	Years ended December 31,		
	2022	**2021**	**2020**
Balance Sheet:			
Cash and equivalents......................	1,542.8	1,613.7	3,124.0
Net working capital [(1)]....................	183.1	236.0	(215.7)
Total assets....................................	18,351.4	19,974.5	23,703.8
Total debt......................................	11,881.1	12,827.4	15,271.3
Total liabilities	15,501.0	17,104.6	20,208.6
Total stockholder's equity	2,850.4	2,869.9	3,495.3
Net assets [(2)]	9,227.2	10,369.0	11,361.9
Capital common stock	454.6	464.4	464.4
Weighted average of outstanding shares (in millions)	19,824.2	19,829.5	19,987.6

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

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

3.2) **Financial Information per Line of Business**

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

	2022				2021				2020			
(in million pesos)	**1 Q**	**2 Q**	**3 Q**	**4 Q**	**1 Q**	**2 Q**	**3 Q**	**4 Q**	**1 Q**	**2 Q**	**3 Q**	**4 Q**
TOTAL REVENUES	**2,547**	**2,544**	**2,736**	**2,652**	**2,835**	**2,983**	**2,759**	**2,812**	**3,106**	**3,078**	**3,095**	**3,077**
AXNET (INFRASTRUCTURE):	**1,016**	**1,101**	**1,200**	**1,071**	**1,230**	**1,387**	**1,194**	**1,206**	**1,169**	**1,316**	**1,280**	**1,218**
Third Parties	400	490	586	457	616	773	580	593	554	706	668	604
Alestra (Inter-Units)	617	611	614	614	614	614	614	614	615	610	612	614
ALESTRA (SERVICES):	**2,147**	**2,054**	**2,150**	**2,195**	**2,219**	**2,210**	**2,179**	**2,220**	**2,552**	**2,372**	**2,427**	**2,473**
Enterprise:	**1,857**	**1,866**	**1,902**	**1,915**	**1,880**	**1,884**	**1,875**	**1,853**	**2,015**	**1,925**	**1,959**	**1,935**
Standard Services	1,214	1,198	1,218	1,225	1,315	1,252	1,231	1,207	1,443	1,336	1,320	1,297
Value-added	241	281	243	271	222	264	251	261	253	266	295	283
Digital Transformation	402	387	441	418	342	368	393	385	320	324	343	355
Government:	**290**	**188**	**248**	**280**	**339**	**326**	**304**	**366**	**537**	**447**	**468**	**538**
Standard Services	124	86	92	147	160	127	150	158	243	257	243	219
Value-added	85	41	104	88	93	130	80	116	194	105	104	157
Digital Transformation	81	61	53	46	86	69	74	93	100	85	121	163
Eliminations Inter-Units(1)	**(617)**	**(611)**	**(614)**	**(614)**	**(614)**	**(614)**	**(614)**	**(614)**	**(615)**	**(610)**	**(612)**	**(614)**
COSTS & OPERATING EXPENSES(2)	**(1,835)**	**(1,847)**	**(1,988)**	**(1,905)**	**(1,919)**	**(1,850)**	**(1,851)**	**(1,945)**	**(2,160)**	**(1,943)**	**(2,046)**	**(2,050)**
OTHER REVENUES (EXPENSES)	**6**	**4**	**42**	**56**	**(1)**	**8**	**3**	**(43)**	**2,028**	**87**	**30**	**25**

(1) Axnet revenues from Alestra, for consolidation purposes, are presented as "eliminations".
(2) Does not include depreciation, amortization and impairment of long-term assets.

Revenues

The Company obtains its revenues from the following categories:

Alestra (Services):

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

- *Standard*: The main services provided are:
  - *Voice:* Local and international long-distance calls to fixed and mobile phones, international traffic (transportation or termination of calls originated outside of Mexico), 800 number services and voice over IP, among others.
  - *Data and Internet:* Private lines, links and dedicated internet.
  - *VPN & Ethernet.*
- *Value-added:* The main services provided are:

- *Systems Integration*
- *Managed services*

- *Digital Transformation:* The Company generates revenues by providing cloud, cybersecurity, managed applications and collaboration services.

(ii) *Government Segment*: The Company provides the same Standard, Value-added and Digital Transformation services previously described to federal, state and municipal government entities.

Axnet (Infrastructure):

The Company provides fixed (including Alestra) and mobile (national and international) operators, data center and tower operators, internet giants, a wide range of services based on its fiber optic network and spectrum, such as last-mile access, IP transit, fiber (dark and lit), fiber-to-the-tower, fiber-to-the-data center, spectrum and collocation.

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

(in million pesos)	**2022**	**2021**	**2020**	**2022**	**2021**	**2020**
TOTAL REVENUES	**10,480**	**11,389**	**12,356**	**100%**	**100%**	**100%**
AXNET (INFRASTRUCTURE):	**4,388**	**5,017**	**4,983**	**42%**	**44%**	**40%**
Third Parties	1,933	2,562	2,532	18%	22%	20%
Inter-units	2,455	2,455	2,451	23%	22%	20%
ALESTRA (SERVICES):	**8,547**	**8,828**	**9,824**	**82%**	**78%**	**80%**
Enterprise:	**7,539**	**7,492**	**7,834**	**72%**	**66%**	**63%**
Standard Services	4,856	5,005	5,396	46%	44%	44%
Value-added	1,037	998	1,096	10%	9%	9%
Digital Transformation	1,647	1,488	1,342	16%	13%	11%
Government:	**1,007**	**1,336**	**1,990**	**10%**	**12%**	**16%**
Standard Services	448	595	961	4%	5%	8%
Value-added	318	419	560	3%	4%	5%
Digital Transformation	241	322	469	2%	3%	4%
Inter-Unit Eliminations	**(2,455)**	**(2,455)**	**(2,451)**	**-23%**	**-22%**	**-20%**

Costs and Operating Expenses

The Company's costs are classified as follow:

- Cost of sales and services includes charges for leased lines, normally paid on a per circuit per month basis to last-mile access suppliers, interconnection costs, including local and resale access charges, paid on a per minute basis and payments to international operators paid on a per minute basis to complete international calls originated in Mexico. Also, costs related to billing, receipt of payments, operator services and private leased links.
  - Operating expenses consist mainly of selling and administrative expenses, such as: wages and salaries, maintenance expenses, advertising, energy and fuel consumption, travel expenses, leasing expenses, professional fees, among others.

- Depreciation and amortization include the depreciation of all the telecommunications network infrastructure and equipment and the amortization of pre-operative expenses, as well as the cost of licenses for the use of radioelectric spectrum and others.

3.3) Relevant Credit Agreements

As of December 31, 2022, 2021 and 2020, the balance of Axtel's debt was Ps. 11,881 million, Ps. 13,343.7 million and Ps. 15,271.3 million, respectively. The following table shows the integration in million Pesos:

Description	As of December 31, 2022	As of December 31, 2021	As of December 31, 2020
Bank loan with Bancomext at TIIE + 2.1% maturing on August 31, 2028. Interests are payable quarterly.	$ 3,026	$ 3,155	$ 3,244
Unsecured Senior Notes due November 14, 2024. Interests payable semi-annually at an annual rate of 6.375%.	7,788	9,057	9,974
Bilateral credit with Export Development Canada maturing on June 24, 2024. Interest is payable monthly at a rate of TIIE 28 days +1.75%	50	50	50
Bilateral loan with Export Development maturing on June 24, 2024. Interests payable monthly Libor 1M + 2.00%.	523	556	938
Short-term loan with MUFG Bank México maturing on March 19, 2021. Interest is payable monthly at a rate of TIIE + 1.70%.	-	-	200
Short-term loan with Banorte maturing on February 10, 2021. Interest is payable monthly at a rate of TIIE + 1.75%.	-	-	110
Lease liabilities	321	484	627
Other credits	122	25	140
Accrued interest payable	104	100	106
Debt issuance costs	(53)	(83)	(118)
TOTAL	**$ 11,881**	**$ 13,344**	**$ 15,271**

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

On January 26, 2023, the Company executed a bilateral bank loan with Export Development Canada (EDC) for US$100 million, with a 5-year term. The use and availability of resources is to refinance its Senior Notes, the unpaid balance of such credit as of March 31, 2023, was US$40 million. Likewise, on January 5, 2023, Axtel signed an agreement to refinance its long-term bank loan with Bancomext for Ps. 3,026 million, at an interest rate of TIIE + 2.1% maturing in 2028 and with an average life of 8 years.

Axtel's current long-term bank debt contracts contain restrictions, mainly in terms of compliance with certain financial ratios, including:

- Interest coverage ratio. Defined as profit before the financial result, income taxes, depreciation, and amortization for a period of the last four quarters, divided by the net financial expenses of the last four quarters. As of December 31, 2022, this factor cannot be less than 2.25 times.

Leverage ratio. Defined at any time of its determination, as the result of dividing the consolidated net debt as of such date, by the profit before financial result, income taxes, depreciation and amortization for a period of the last four preceding quarters. As of December 31, 2022, this ratio should not exceed 4.25 times.

On the other hand, there are contractual obligations resulting from the issuance of the 2024 Bond placed by Axtel abroad that contain limitations and commitments that must be fulfilled during the life of such titles.

As of the date of this Annual Report, Axtel is in compliance with the obligations to do and not to do contained in its credit agreements. Said obligations, among other conditions and subject to certain exceptions, require or limit the ability of Axtel's subsidiaries to:

- Issue certain financial information;
- Maintain accounting books and records;
- Maintain the assets in adequate conditions;
- Comply with applicable laws, regulations and provisions;
- Incur additional indebtedness;
- Pay dividends;
- Grant liens on assets;
- Enter into operations with affiliates;
- Carry out a consolidation, merger or sale of assets, and;
- Enter into sales operations with a lease agreement (*sale and lease back*).

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

The operating results for the years ended December 31, 2022, 2021 and 2020 are presented below, as well as the financial situation as of December 31, 2022, 2021 and 2020.

3.4.1) Operating results for the years ended December 31, 2022 and December 31, 2021

Revenues

Total revenues for 2022 were Ps. $10,480 million, a decrease of 8% compared to Ps. $11,389 million during 2021, due to decreases of 3.2% and 12.5% in the revenues of Alestra and Axnet, respectively.

The Company's revenues come from the following business units:

Axtel Networks, Axnet (Infrastructure)

Axtel Networks' revenues for 2022 totaled Ps. $4,388 million, a 12.5% decrease compared to Ps. $5,017 million during 2021. The drop was due to decreases in dark fiber contracts, along with lower revenues from a wholesale mobile operator customer.

Alestra

Alestra's 2022 revenues were Ps. $8,547 million, a decrease of 3.2% compared to Ps. $8,828 million during 2021. The decrease was mainly due to a 24.6% drop in revenue from the Government segment, partially offset by a 0.6% increase in revenue from the Enterprise segment.

Enterprise. During 2022, Alestra's Enterprise segment revenues were Ps. $7,540 million, a marginal increase of 0.6% compared to Ps. $7,492 million during 2021, due to a 3.0% decrease in *standard services*, partially mitigated by increases of 3.9% and 10.7% in *value-added* and *digital transformation* services, respectively.

Standard Services. In 2022, *Standard Services* revenues were Ps. $4,856 million, a 3.0% decrease compared to Ps. $5,005 million during 2021, mainly due to a 12% drop in voice revenues, due to its decreasing technological trend and the adoption of collaboration solutions. On the other hand, revenues from Data, Internet, VPN & Ethernet and hosting solutions increased 2%.

Value added. Value Added revenues in Alestra's Enterprise segment in 2022 were Ps. $1,037 million, representing an increase of 3.9%, compared to Ps. $999 million during 2021, due to 13.5% increases in systems integration, partially mitigated by a 1.3% decline in managed services revenues.

Digital transformation. During 2022, revenues were Ps. $1,647 million, an increase of 10.7% compared to Ps. $1,488 million during 2021, mainly due to a combined 20% increase in cloud services and cybersecurity.

Government. Revenues from this segment of Alestra for 2022 were Ps. $1,007 million, compared to Ps. $1,336 million during 2021, being a decrease of 24.6%. These results are explained by lower recurring revenues due to the termination of contracts with federal entities. However, during the year the strategic vision and commercial team were reinforced, laying the foundations to expand opportunities and positioning in new states and federal entities, expanding opportunities during the year and going forward, which was evidenced in a sequential recovery during 2022, with a 10% increase in revenues in the second semester compared to the first semester.

Standard Services. In 2022, revenues from these services of Alestra's Government segment were Ps. $448 million, representing a 24.6% drop compared to 2021, mainly due to a decrease in Internet, Hosting and VPN solutions.

Value added. During 2022, revenues were Ps. $318 million, 24.2% lower compared to 2021 mainly due to a drop in system integration solutions.

Digital transformation. Digital Transformation revenues in the Government segment, for 2022, were Ps. $241 million, representing a 25.1% reduction compared to 2021, mainly due to drops in cybersecurity and collaboration.

Gross profit

Gross profit is defined as sales minus cost of revenues. For the year 2022, gross profit was Ps. $. 5,316 million, 5.1% lower than in 2021. Gross profit by business unit, without considering the depreciation and amortization cost of sales, is explained below.

Alestra. Gross profit totaled Ps. 3,635 million, remained unchanged, as the drop in revenue was offset by higher margins, particularly in the Government segment.
Axnet. Gross profit was Ps. 4,052 million, a decrease of 11.9% compared to the same period of the previous year and in line with the drop in revenues described above.

Operating expenses and Other income (expenses)

Selling and administrative expenses reached Ps. $5,218 million in 2022, these increased 5.2% compared to 2021. Selling and administrative expenses by business unit, without considering depreciation and amortization, are explained below:

Alestra. *Expenses for 2022 did not reflect changes compared to 2021.*

Axnet. Selling and administrative expenses increased 15.6% compared to 2021, mainly as a result of bad debt provision related to a wholesale mobile operator.

Other income (expenses) was Ps. $76 million during 2022, mainly from gains in asset sales and other organizational efficiencies; compared to Ps. (354) million of expenses in 2021, mostly related to the impairment of invested shares during the fourth quarter of the year.

EBITDA

EBITDA reached Ps. 3,011 million, 21% lower than in 2021. In 2022, the EBITDA margin reached 29%, lower than 33% in 2021, mainly due to higher operating expenses at Axnet, as well as a lower contribution to total EBITDA from Axnet, whose margin is greater than that of Alestra.

> ***Alestra.*** *(53% of 2022 EBITDA)* In 2022, EBITDA totaled Ps. 1,595 million; a 4% increase when compared to 2021, due to a higher level of other income.
>
> ***Axnet.*** *(47% of 2022 EBITDA)* In 2022, EBITDA totaled Ps. 1,416 million; 37% lower than 2021, mainly explained by the decline in gross profit and higher operating expenses related to the extraordinary bad debt provision charge.

Operating Income

2022 recorded an operating income of Ps. $174 million, compared to Ps. $292 million in 2021, mainly due to a drop in EBITDA, partially mitigated by lower depreciation and amortization compared to 2021.

Comprehensive Financing Result

The comprehensive financing result reached Ps. $261 million for 2022, compared to a comprehensive financing result of Ps. 1,441 million in 2021, a decrease of 81.9%, mainly explained by a 33.7% drop in net interest expense, as well as a FX gain of Ps. 511 million due to the appreciation of the Mexican peso against the US dollar in 2022, compared to a FX loss of Ps. 277 million in 2021.

Taxes

During 2022, income tax represented a benefit in taxes of Ps. $48 million, compared to a tax benefit of Ps. $352 million in 2021. The variation is mainly due to the recognition of the effects of inflation in the Company's assets, as well as the changes in tax losses due to the results obtained in the year.

Net loss

For 2022, the net loss was Ps. $39 million, compared to a net loss of Ps. $797 million in 2021.

Capital investments

For the year 2022, the capital investment in acquisitions of property, plant and equipment and intangibles totaled Ps. 1,331 million, equivalent to 13% of total revenue; 13% lower compared to Ps. 1,533 million in 2021, equivalent to 13% of total revenue. In 2022, 69% of the investments were allocated to Axnet and 31% to Alestra.

Operating results for the years ended December 31, 2021 and December 31, 2020

Revenues

For the year 2021, total revenues were Ps. 11,389 million, a 7.8% decrease compared to 2020, mainly due to a 10.1% decline in Alestra’s revenues, partially mitigated by a 0.7% increase in Infrastructure revenues.

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

Axtel Networks, Axnet ("Infrastructure")

2021 revenues totaled Ps. 5,017 million, 0.7% higher than 2020, due to a 1.2% increase in third-party revenues, mainly driven by a strong performance of dark fiber contracts to mobile and wholesale customers. Revenues coming from Alestra remained flat and represented 49% of total Axnet´s revenues.

Alestra

Revenues for 2021 were Ps. 8,828 million; 10% lower compared to 2020; due to 4.4% and 32.9% declines in revenues from the Enterprise and Government segments, respectively.

> ***Enterprise.*** In 2021, revenues amounted Ps. 7,492 million, a 4.4% decline compared to 2020, due to a 7.2% decrease in *standard* services, partially mitigated by an 10.9% increase in *digital transformation* services revenues.
>
> > ***Standard Services.*** In 2021, revenues recorded Ps. 5,005 million, a 7.2% decrease compared to 2020, mainly due to a 23% drop in *voice* revenues, as a result of its maturing technological cycle and the adoption of collaboration solutions; as well as a 2% decline in *data* and *internet* solutions and a 5% drop in *VPN & Ethernet*, explained by a lower volume of services with corporate clients, many of whom downsized their operations.
> >
> > ***Value Added***. 2021 revenues reached Ps. 999 million, 8.9% lower than 2020, mainly due to a 12% decrease in *managed services* revenues.
> >
> > ***Digital Transformation.*** During 2021, Revenues totaled Ps. 1,488 million, a 10.9% increase compared to 2020, driven by double-digit growth in *cloud, cybersecurity* and *managed applications* services.
>
> ***Government.*** In 2021, revenues totaled Ps. 1,336 million, compared to Ps. 1,990 million in 2020, a 32.9% decrease. These results are due to the termination of contracts, a decline in acquisitions and fewer non-recurring revenues, mainly with federal entities. The Company maintains its effort to seek value-added opportunities with the federal government and further diversify into projects with state and local governments.
>
> > ***Standard Services.*** In 2021, revenues amounted Ps. 595 million, a 38.1% decrease compared to 2020.
> >
> > ***Value Added.*** For 2021, revenues recorded Ps. 419 million, a 25.2% decrease.
> >
> > ***Digital Transformation.*** In 2021, revenues reached Ps. 322 million, a 31.3% decrease, mainly due to a decline in *managed application* solutions.

Gross Profit

Gross profit is defined as revenue minus cost of sales. For the year 2021, gross profit represented Ps. 5,603 million, a decrease of 9.4%, in line with the drop in revenues. Gross profit by business unit, without considering cost of sales, depreciation and amortization, is explained below:

> ***Alestra.*** Gross profit totaled Ps. 3,650 million, a 15% decline compared to 2020, mainly due to the declines in revenues previously described for both the Enterprise and Government segments and to the contraction of the margin of the enterprise segment.

Axtel Networks. Gross profit was Ps. 4,601 million, flat compared to 2020.

Operating expenses and other income (expenses)

For the year 2021, selling and administrative expenses totaled Ps. 4,958 million, a decrease of 8.4% compared to 2020. Selling and Administrative expenses by business unit, without considering depreciation and amortization, are explained below.

Alestra. Selling and administrative expenses declined 15% compared to 2020, mainly as a result of declines in personnel, debt provision charges and maintenance expenses.

Axtel Networks. Selling and administrative expenses increased 2% compared to 2020, mainly due to an increase in tower rents, partially mitigated by reductions in real estate leases and basic services.

For 2021, other expenses represented Ps. 354 million, mostly related to organizational efficiencies recorded in the fourth quarter of the year; compared to other income of Ps. 2,000 million in 2020, figure that includes a Ps. 2,021 million benefit from the data center transaction in the first quarter of 2020 and a Ps. 90 million benefit from the spectrum transaction in the second quarter of the same year.

For the year 2021, the other expenses item was Ps. 354 million, mainly related to the impairment of the investment in shares during the fourth quarter of the year; compared to other income for Ps. 2,000 million in 2020, a figure that includes Ps. 2,021 million benefit from the data center transaction in the first quarter of 2020 and Ps. 90 million from the spectrum transaction in the second quarter of the same year.

EBITDA

EBITDA totaled Ps. 3,793 million, 10% lower than 2020 Comparable EBITDA. For 2021 the EBITDA margin was 33.3%, lower than the 34.1% registered in 2020, as efficiencies in operating expenses did not compensate the decline in gross profit.

Alestra. (41% of 2021 EBITDA) In 2021, EBITDA totaled Ps. 1,538 million; 18% lower than 2020 due to the drop in gross profit, partially mitigated by the reduction in operating expenses.

Axtel Networks. (59% of 2021 EBITDA) In 2021, EBITDA totaled Ps. 2,254 million; 4% lower than 2020, explained by the higher operating and other expenses.

Operating Income

In 2021, the Company recorded an operating income of Ps. 292 million compared to Ps. 2,773 million in 2020, figure that includes the Ps. 2,021 million benefit of the data center transaction and the Ps. 90 million benefit from the spectrum transaction. In the fourth quarter of 2021, the Company recognized an impairment of Ps. 290 million in minority-participation investments.

Comprehensive Financial Result, net.

Comprehensive financial cost in 2021 was Ps. 1,442 million, 10.9% lower than the Ps. 1,618 million cost in 2020, mostly due to a 14% decline in interest expense.

Taxes

During 2021, income tax represented a benefit of Ps. 352 million, compared to a tax expense of Ps. 793 million in 2020. The difference is mainly due to the recognition of the inflation effects on the Company's assets, as well as the increase in tax losses generated in the year itself and those of previous years.

Net Income (Loss)

The Company recorded a net loss of Ps. 797 million in the year 2021, compared to a net income of Ps. 362 million registered in 2020. The variation is mainly explained by the benefits of data center and spectrum transactions in 2020; partially mitigated by the lower comprehensive financial cost and tax benefit in 2021 previously described.

Capital Investments

In 2021, capital Investments in acquisitions of property, plant and equipment and intangibles totaled Ps. 1,533 million, 29% lower compared to Ps. 2,146 million in 2020. The 2020 figure includes an extraordinary investment of US $22 million related to the renovation of spectrum frequencies and excludes US $167 million benefit from the data center divestment. In 2021, 65% of the investments were allocated to Axnet and 35% to Alestra.

3.4.2) Financial Position as of December 31, 2022 and as of December 31, 2021

Assets. As of December 31, 2022, total assets amounted Ps. 18,351 million compared to Ps. 19,974 million as of December 31, 2021, a decrease of Ps 1,623 million, or 8%.

Cash and equivalents. As of December 31, 2022, cash and cash equivalents totaled Ps. 1,543 million compared to Ps. 1,614 million as of December 31, 2021, a decrease of Ps. 71 million, or 4%.

Accounts Receivable. As of December 31, 2022, accounts receivable totaled Ps. 1,194 million compared to Ps. 1,695 million as of December 31, 2021, a decrease of Ps. 501 million, or 30%, mainly due to an increase in the allowance for bad debt related to a mobile wholesale customer.

Property, systems and equipment, net. As of December 31, 2022, property, systems and equipment, net, were Ps. 9,044 million compared to Ps. 10,133 million as of December 31, 2021. Property, systems and equipment without discounting accumulated depreciation totaled Ps. 48,412 million and Ps. 47,995 million as of December 31, 2022 and 2021, respectively.

Liabilities. As of December 31, 2022, total liabilities amounted to Ps. 15,501 million compared to Ps. 17,105 million as of December 31, 2021, a decrease of Ps. 1,604 million or 9%, due to a reduction in debt, mainly due to the open market repurchases of Senior Notes 2024 for US $38 million.

Accounts payable. As of December 31, 2022, accounts payable amounted to Ps. 1,833 million compared to Ps. 2,138 million as of December 31, 2021, a decrease of Ps. 305 million, or 14%.

Debt. As of December 31, 2022, net debt was US $537 million, a decrease of 6% or US $37 million compared to year-end 2021; comprised of a reduction in debt of US $47 million, a non-cash decrease of US $11 million caused by a 6% appreciation of the Mexican Peso year-over-year and an increase in cash of US $1 million.

The reduction of US $47 million in debt compared to the previous year is explained by i) a decrease of US $38 million related to open market repurchases in the open market of the 2024 Senior Notes; ii) a reduction of US $6 million due to the amortization of the long-term facility; and iii) a decrease of US $3 million in other loans and financial leases.

Stockholders' equity. As of December 31, 2022, the Company's stockholders' equity amounted to Ps. 2,850 million compared to Ps. 2,870 million as of December 31, 2021, a decrease of Ps. 19 million or 1%. Capital stock decreased by Ps. 10 million totaling Ps. 455 million as of December 31, 2022, due to the cancellation of shares during the year.

Financial Position as of December 31, 2021 and as of December 31, 2020

Assets. As of December 31, 2021, total assets amounted Ps. 19,974 million compared to Ps. 23,704 million as of December 31, 2020, a decrease of Ps 3,729 million, or 16%.

Cash and equivalents. As of December 31, 2021, cash and equivalents totaled Ps. 1,614 million compared to Ps. 3,124 million as of December 31, 2020, a decrease of Ps. 1,510 million or 48%, largely derived from the US$60 million redemption of the 2024 Senior Notes ("Notes") in March 2021, as well as the US$20 million payment of one of the committed line facilities in September 2021.

Accounts Receivable. As of December 31, 2021, accounts receivable amounted Ps. 1,695 million compared to Ps. 1,795 million as of December 31, 2020, a decrease of Ps. 100 million, or 6%.

Property, systems and equipment, net. As of December 31, 2021, property, systems and equipment, net, were Ps. 10,133 million compared to Ps. 11,578 million as of December 31, 2020. Without deducting accumulated depreciation, Property, systems, and equipment totaled Ps. 47,995 million and Ps. 50,791 million as of December 31, 2021, and 2020, respectively.

Liabilities. As of December 31, 2020, total liabilities amounted to Ps. 17,105 million compared to Ps. 20,209 million as of December 31, 2020, a decrease of Ps 3,104 million or 15%, due to a reduction in debt, mainly due to the US $60 million prepayment of the Notes in March 2021, the payment of US $20 million of a committed line facility in September 2021 and the full prepayment of short-term lines that were drawn down to strengthen liquidity against COVID-19.

Accounts payable. As of December 31, 2021, accounts payable amounted to Ps. 2,138 million compared to Ps. 2,376 million as of December 31, 2020, a decrease of Ps. 238 million or 10%.

Debt. As of December 31,2021, net debt was US $574 million, a decrease of 5% or US $28 million in comparison with year-end 2020; comprised of a US $113 million decrease in debt, a US $6 million non-cash decrease in debt caused by an 3% depreciation of the Mexican peso year-over-year and a US $91 million decrease in cash.

Total debt reduction of US $113 million year-over-year is explained by i) a US $60 million decrease related to the partial redemption of the 2024 Senior Notes in March 2021; ii) a US $36 million decrease in bank loans, including the US $20 million reduction in the drawn down amount under a committed line facility in September 2021; iii) a US $13 million decrease in other loans and financial leases; and iv) a US $4 million decrease due to the amortization of the long-term facility.

Stockholders' equity. As of December 31, 2021, the Company´s stockholders equity amounted Ps. 2,870 million compared to Ps. 3,495 million as of December 31, 2020, a decrease of Ps. 625 million or 18%. The capital stock totaled Ps. 464 million as of December 31, 2021, and 2020.

Cash Flow

As of December 31, 2021, cash flow from operating activities reached Ps. 3,292 million, compared to a cash flow of Ps. 4,208 million as of December 31, 2020.

As of December 31, 2021, the Company had generated (used) cash flows from investment activities for (Ps. 1,268 million), compared to Ps 729 million as of December 31, 2020. Investments in property, systems and equipment and intangibles were (Ps. 1,533) million as of December 31, 2021, and Ps. 1,002 million as of December 31, 2020. The 2020 figure includes a benefit of Ps. 3,145 million from the data centers divestment, without considering this benefit, investments totaled Ps. (2,146) million.

As of December 31, 2021, the cash flow (used in) generated by financing activities was Ps. (3,602) million, compared to Ps. (2,601) million as of December 31, 2020.

As of December 31, 2021, the net debt to EBITDA ratio and the interest coverage ratio were 3.1x and 3.3x, respectively. Likewise, as of December 31, 2020, the net debt to EBITDA and interest coverage ratios were at 2.0x and 5.1x, respectively. *Pro forma* interest expenses are used for the calculation of interest coverage ratio.

Liquidity and Capital Resources applicable for years 2022, 2021 and 2020

On November 9, 2017, Axtel issued Senior Notes in the international market and listed on the Irish Stock Exchange under a private offering under Rule 144A and Regulation S of the Securities Law from 1933 of the United States of America for an amount of US$500 million and that accrue interest at an annual coupon of 6.375% maturing in 7 years (the "Notes"). The proceeds were mainly used to prepay the existing debt related to the syndicated loan signed on January 15, 2016 and various transaction costs and expenses. In March 2021, Axtel prepaid US $60 million of its Notes at a price of 104.781%, with the remaining resources from the data center sale transaction formalized in January 2020.

During the second semester of 2022, the Company made repurchases in the open market of its Notes for a total amount of US$38 million with its own resources. Additionally, in January 2023, Axtel launched an offer to purchase up to US$120 million of principal of its Notes. Axtel received and accepted offers from the holders for US$89 million of principal of the Notes, with its own resources and from existing credit lines. Therefore, the balance of the Notes is US$314 million.

Additionally, Axtel has a committed revolving credit line with Export Development Canada (EDC) for up to US$50 million, or its equivalent in pesos, maturing in June 2024. It also has another committed revolving credit line with BBVA for an amount of up to Ps. $400 million maturing in June 2024. These committed lines of credit are to finance working capital and general corporate uses. As of December 31, 2022, the total drawn balance is US$30 million for the line with EDC and it did not have any drawn balance for the line with BBVA.

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 on fixed assets and manage its working capital, including the collection of its accounts receivable and the management of its accounts payable.

Tax Liabilities

As of December 31, 2022, the Company did not have relevant tax liabilities.

Commitments regarding Capital Investments

As of December 31, 2022, the Company did not have relevant capital investment commitments.

Non-registered Relevant Transactions

As of December 31, 2022, the Company had no relevant off-record transactions in the Balance Sheet or the Income Statement. As of the date of this report, the Company is in compliance with the obligations to do and not to do contained in its credit agreements. For more information see section 2.15) *Judicial, Administrative or Arbitration Processes.*

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 relationships 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, seeking to optimize the 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 Department, 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. – In the event that a waiver is anticipated due to non-compliance, the Corporate Financing area, with authorization from the Executive Finance Department, must immediately initiate the application process in coordination with ALFA’s Treasury and Planning Department and Legal Department.
- Relationships with Financial Institutions and Investors. - The Corporate Finance and Investor Relations Department, in coordination with the Finance Executive Department and ALFA’s Treasury and Planning and Investor Relations departments, 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 on behalf 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, pledges or any other general or specific guarantee, or constitute any kind of right in favor of third parties.

General Guidelines for Expenditure 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 an established minimum daily 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 collection accounts, 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 payment conditions 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 Treasury and Supply Chain Department and must be documented in the purchase file.

- Investment of Surpluses. - The Treasury will be responsible for the investment of surplus resources, optimizing the risk-return ratio and evaluating characteristics of term, rating and marketability, as well as taking care of reciprocity with the counterparts that support the relationship with the company. The investment of surplus resources must comply with the guidelines defined in ALFA's Corporate Cash Management Policy and the obligations established in current financing agreements (Covenants).

- Foreign currencies exchange. - Operations in the purchase or sale of foreign currency must be carried out in the first instance with ALFA's subsidiaries or affiliates. If there is no subsidiary or affiliate of ALFA to operate as a counterparty, then the financial institutions that offers the best available alternative in terms of price, security and timely delivery of resources will proceed. Before closing a foreign currency exchange purchase or sale operation, at least two financial institutions that comply with the current requirements established by the Corporate Cash Management Policy of ALFA must be quoted, as well as documenting the Foreign Currency Purchase-Sale transaction.

- 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 presence, the responsibility will be in charge of the administrative coordinator of such area or of the Internal Control area of the Company. The 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 be responsible for keeping track of the banking commissions charged to the company derived from cash management, establishing continuous monitoring and trying to optimize the costs generated by banking services, with the exception of collection commissions, which will be responsibility of the area of income assurance and payments application.
- Bank float. -The Treasury Department will be responsible for maintaining the minimum necessary bank float balance in checking accounts, in order to optimize the use of available financial resources
- Bank Accounts. - The Treasury Department will be responsible for controlling the opening of bank accounts and administration, to maintain the most appropriate account structure for the needs of the Company's financial operation and seeking to optimize available monetary resources.
- Authorizations. - Only those officers of the company appointed by the General Shareholders' Meeting, filed through a Notary Public, or persons empowered in the Treasury Department by such attorneys, may perform banking or cash management operations on behalf of the Company.

3.4.4) Internal Control applicable to years 2021, 2020 and 2019

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 information 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 controls (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 Policy***. 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 expenditure 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 at 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, it will be authorized upon delivery of a capital investment authorization request ("SAIC" 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 estimates essential for the preparation of the Company's financial statements, attached and in accordance with IFRS.

- ***Uncollectible Reserve Accounts Policy.*** The objective of this policy is to supervise the collection of the accounts receivables portfolio and make the required provisions in a timely manner. This policy establishes the necessary requirements for the determination of the provision of uncollectible 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 uncollectible accounts.

- ***Treasury and Financing Policy.*** Policy intended to properly plan and manage the financial resources necessary for the Company to develop its operation and expansion plans and maintain effective relations with financial institutions and investors.

3.5) <u>Critical accounting estimates and significant judgments</u>

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

a. Impairment and useful lives of long-lived assets

The Company reviews depreciable and amortizable assets on an annual basis for signs of impairment, or when certain events or circumstances indicate that the book value may not be recovered during the remaining useful life of the assets. For intangible assets with an indefinite useful life, the Company performs impairment tests annually and at any time that there is an indication that the asset may be impaired.

To test for impairment, the Company uses projected cash flows, which consider the estimates of future transactions, including estimates of revenues, costs, operating expenses, capital expenditures and debt service. In accordance with IFRS, discounted future cash flows associated with an asset or CGU are compared to the book value of the asset or CGU being tested to determine if impairment exists whenever the aforementioned discounted future cash flows are less than its book value. In such case, the carrying amount of the asset or group of assets is reduced to its value in use, unless its fair value is higher.

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

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

The Company conducts annual tests to determine whether goodwill and intangibles assets with indefinite useful lives have suffered any impairment (Note 12). For impairment testing, goodwill and intangibles assets with indefinite lives is allocated with those cash generating units (CGUs) of which the Company has considered that economic and operational synergies of the business combinations are generated. The recoverable amounts of the groups of CGUs were determined based on the calculations of their value in use, which require the use of estimates, within which the most significant are the following:

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

c. Recoverability of deferred tax assets

The Company has applicable tax-loss carryforwards, which can be used in the following years until maturity expires (See Note 20). Based on the projections of income and taxable income that the Company will generate in the following years through a structured and robust business plan, management has considered that current tax losses will be used before they expire and, therefore, it was considered appropriate to recognize a deferred tax asset for such losses.

d. Commitments and contingencies

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

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

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

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

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

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

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

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

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

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

4. MANAGEMENT

4.1) External Auditors

The Company’s independent auditor as of January 1, 2017 is Galaz, Yamazaki, Ruíz Urquiza, S.C. member of 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.

For the last three years, the external auditors have issued favorable opinions.

The Certified Public Accountants who, as partners of Galaz, Yamazaki, Ruíz Urquiza, S.C., has signed the opinion issued by the external auditor are Efraín Omar Fernández Mendoza for year 2022 and 2021 and Héctor García Garza for years 2017 to 2020.

The Audit and Corporate Practices Committee approves the annual hiring and, if applicable, ratification of the independent external auditor. The external auditor presents a work plan to the Company each year, which 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 its activities, that its economic requirements are within market, among others. Once the Company has performed this evaluation and is aware of the work plan, the proposal is then submitted to the Audit and Corporate Practices Committee for approval.

Fees paid for other professional services during 2022 amounted to Ps. 3.1 million. The total fees paid to the external auditors have been in market terms and do not exceed 10% of the Company’s total revenues.

4.2) Certain Relationships and Related Transactions

Balances with related parties as of December 31, 2022, 2021 and 2020, were as follows:

(in thousands)			December 31, 2022 Loans received from related parties				
	Accounts receivable	Accounts payable	Amount	Interest	Currency	Expiration date	Interest rate
Affiliates	$15,158	$11,012	$ -	$ -	$ -	-	-
Total	$15,158	$11,012	$ -	$ -	$ -	-	-

			December 31, 2021 Loans received from related parties				
	Accounts receivable	Accounts payable	Amount	Interest	Currency	Expiration date	Interest rate
Affiliates	$35,260	$ 666	$ -	$ -	$ -	-	-
Total	$35,260	$ 666	$ -	$ -	$ -	-	-

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

Transactions with related parties for the years ended December 31, 2022, 2021 and 2020, which were carried out in terms similar to those of arm’s-length transactions with independent third parties, were as follows:

(in thousands)	Year ended December 31, 2022		
	Income	**Costs and expenses**	
	Telecommunication services	**Interests**	**Others**
Affiliates	$ 166,096	-	$ 38,884
Total	$ 166,096	-	$ 38,884

	Year ended December 31, 2021		
	Income	**Costs and expenses**	
	Telecommunication services	**Interests**	**Others**
Affiliates	$ 145,073	$ -	$ 7,387
Total	$ 145,073	$ -	$ 7,387

	Year ended December 31, 2020		
	Income	**Costs and expenses**	
	Telecommunication services	**Interests**	**Others**
Holding company	$ -	$10,625	$ -
Affiliates	170,756	-	9,480
Total	$ 170,756	$10,625	$ 9,480

For the year ended December 31, 2022, 2021 and 2020 compensation and benefits paid to the Company's main officers totaled 67,357 thousand, $66,098 thousand and $116,791 respectively, 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) <u>Senior Management and Shareholders</u>

Pursuant to the Company's bylaws and Mexican Securities Market Law, the Board of Directors is composed of 11 regular members and 1 alternate director. Currently, six proprietary board members are independent pursuant to Mexican Securities Market Law. The Audit and Corporate Practices Committee is currently comprised of three independent proprietary directors.

The information regarding the composition of the executive directors and members of the Board of Directors is detailed below:

Name	Position	Ownership percentage*
Álvaro Fernández Garza(1)	Co-Chairman	
Tomás Milmo Santos(1).................................	Co-Chairman	6%
Eduardo Alberto Escalante Castillo	Chief Executive Officer	
Adrián Cuadros Gutiérrez	Executive Director Government Segment	
Adrián G. de los Santos Escobedo.................	Chief Financial Officer	
Andrés E. Cordovez Ferretto	Executive Director Infrastructure and Operations	
Bernardo García Reynoso.............................	Executive Director Business Strategy	
Carlos G. Buchanan Ortega	Executive Director Human Capital	
Raúl de Jesús Ortega Ibarra	Executive Director Legal and Regulatory	
Alejandro Miguel Elizondo Barragán(A)..........	Independent Board member	

Name	Position	Ownership percentage*
Eduardo Alberto Escalante Castillo[1]	Board member	
Francisco Garza Egloff (†)............................	Independent Board member	
Juan Ignacio Garza Herrera	Independent Board member	
Armando Garza Sada[1].................................	Board member	
Fernando Ángel González Olivieri[2]	Independent Board member	
Patricio Jiménez Barrera[1]............................	Board member	
Enrique Meyer Guzmán [A]	Independent Board member	
Ricardo Saldívar Escajadillo [A]	Independent Board member	
Alberto Santos Boesch	Independent Board member	
José Antonio González Flores[1]	Alternate Director	

(1) Patrimonial Director.
(2) Independent Patrimonial Director.
(A) Member of Audit and Corporate Practices Committee.

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

The aforementioned Board Members were appointed at the Annual General Shareholders Meeting held on March 7, 2023. In accordance with the applicable legislation and the Company's bylaws, the members of the Board of Directors remain in office for thirty days after their resignation 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 said officers and board members is Av. Munich 175, Col. Cuauhtémoc, San Nicolás de los Garza, N.L., México, C.P. 66240.

Co-Chairmen:

Álvaro Fernández Garza
March 27, 1968 (54 years old)

Board Member and Co-Chairman of the Board of Axtel since February 2016 (7 years).

CEO of ALFA, S.A.B. de C.V. (ALFA). Chairman of the Board of the Universidad de Monterrey (UDEM) and Co-Chairman of Nemak. Member of the Boards of ALFA, Alpek, Cydsa, Grupo Aeroportuario del Pacífico and Vitro.

Mr. Fernández Garza holds a degree in Economics from Notre Dame University and an MBA from ITESM and Georgetown University.

Experience:
- ICT Industry: Alestra's Executive Director from 1996 to March 2003.
- Functions: Finance, Operations and Strategic Planning.
- Industries: Telecommunications, Automotive, Consumer Goods and Petrochemical.

Tomás Milmo Santos
November 3, 1964 (58 years old)

Board Member and Co-Chairman of the Board of Axtel since February 2016. Prior to the merger between Axtel and Alestra, he was Board Member of Axtel since 1994 (28 years).

He was Axtel's CEO from 1994 to February 2016, he has been a Board Member since 1994 and was Chairman of the Board from 2003 to February 2016 and was a Board Member of CEMEX from 2006 to 2022. He is a member of the Board of Directors of ITESM and Promotora Ambiental. He is also Chairman of the Board of Tec Salud.

He holds a degree in Business Economics from Stanford University.

Experience:
- ICT Industry: Axtel's CEO from 1994 to February 2016.
- Functions: Entrepreneurship, Business Management and Administration.
- Industries: Telecommunications and Energy.

Proprietary Directors:

Eduardo Alberto Escalante Castillo
March 27, 1958 (64 years old)

Axtel Board Member since February 2019 (4 years).

CFO of ALFA since 2018 and CEO of Axtel from January 2021 until April 2022. He was Chairman of the *Asociación Nacional de la Industria Química* (ANIQ) in México

He holds a degree in Electronic and Communications Engineering from ITESM and a Master's degree from Stanford University.

Experience:
- Telecommunications Industry (ICT): General Director of Axtel from January 2021 to April 2022.
- Functions: Finance and Strategic Planning.
- Industries: Telecommunications, Petrochemicals, Food and Steel.

Armando Garza Sada
June 29, 1957 (65 years old)

Axtel Board Member since February 2016 (7 years).

Chairman of the Board of Directors of ALFA and Alpek, as well as Co-Chairman of Nemak. Member of the Boards of BBVA Mexico, CEMEX, Grupo Lamosa and Liverpool.

He holds a BA from the Massachusetts Institute of Technology and an MBA from Stanford University.

Experience:
- Functions: Strategic Planning, Finance and Operations.
- Industries: Consumer goods, Petrochemical, Automotive and Construction.

Patricio Jiménez Barrera
October 29, 1965 (57 years old)

Axtel Board Member since February 2018. Prior to the merger between Axtel and Alestra, he was Board Member of Axtel from 2005 to 2016 (15 years).

Chairman of Abstrix. Member of the Boards of Grupo Tredec and Jumbocel.

He is a Certified Public Accountant and holds a degree from ITESM.

Experience:

- ICT Industry: Axtel's CFO from 1998 to February 2009.
- Functions: Finance, Investment Banking, Administration, Human Resources and Treasury.
- Industries: Telecommunications, Banking and Brokerage House.

Independent Board Members:

Alejandro Miguel Elizondo Barragán
October 14, 1953 (69 years old)

Axtel Board Member since February 2016 (7 years).

He is a member of the Board of Directors of Arca Continental and Grupo Stiva.

He holds a degree in Mechanical and Electrical Engineering from ITESM and an MBA from Harvard University.

Experience:

- Functions: Planning, Finance, Business Development and Administration.
- Industries: Steel, Petrochemical and Food and Beverages.

Juan Ignacio Garza Herrera
November 26, 1966 (56 years old)

Axtel Board Member since February 2016 (7 years).

CEO of Xignux. He was Chairman of COMCE Noreste and has been a Board Member of Xignux, *Consejo Mexicano de Hombres de Negocios* (CMHN), BBVA Mexico (Regional Noreste), UDEM, ICONN, Cleber and of the *Instituto Nuevo Amanecer, A.B.P*. He was Chairman of *Cámara de la Industria de Transformación de Nuevo León*.

He holds a degree in Mechanical Engineering from ITESM and an MBA from the University of San Francisco.

Experience:

- Functions: Manufacturing, International Trade and Human Capital.
- Industries: Electrical and Food.

Fernando Ángel González Olivieri
October 2, 1954 (68 years old)

Axtel Board Member since February 2016. Prior to the merger between Axtel and Alestra, he was Board Member of Axtel since 2010 (13 years).

CEO of CEMEX. Member of the Boards of Directors of *Grupo Cementos de Chihuahua* and *Universidad Tec Milenio*.

He holds a BA and MBA from ITESM.

Experience:

- Functions: Business Management, Strategic Planning, Business Development, Climate Change/Sustainability and Digital Transformation.
- Industries: Steel and Heavy Construction Materials.

Enrique Meyer Guzmán
January 7, 1960 (62 years old)

Axtel Board Member since February 2016 (7 years).

Chairman and CEO of Grupo CEMIX. Board Member of UDEM, Bancomer, Banamex, Silica Desarrollo, S.A. (Arboleda), Fondo Emblem and Beliveo.

He holds an Industrial and Systems Engineering degree from ITESM, with an MBA from Stanford University.

Experience:

- Functions: Entrepreneurship, Business Management and Administration.
- Industries: Industrial, Construction and Real Estate.

Ricardo Saldívar Escajadillo
November 20, 1952 (70 years old)

Axtel Board Member since February 2016 (7 years).

Private investor. Member of the Boards of FEMSA, Tecnológico de Monterrey and Grupo Industrial Saltillo. Former President and CEO of The Home Depot Mexico, a position he held for eighteen years until June 2017 when he retired. Previously, he worked in various ALFA companies for nearly 21 years.

He holds a degree in Mechanical Engineering Administration from ITESM, with a Master´s degree of Science in Systems Engineering from Georgia Tech, with studies in Senior Management from IPADE.

Experience:

- ICT Industry: CFO of Alestra from 1996 to January 1999.
- Functions: Entrepreneurship, Business Management and Administration.
- Industries: Industrial, Construction and Real Estate.

Alberto Santos Boesch
August 26, 1971 (51 years old)

Axtel Board Member since February 2016, prior to the merger between Axtel and Alestra, he was a Board Member of Axtel since 2013 (10 years).

Board member of Gruma, BBVA Bancomer, Interpuerto Monterrey, Comité del Desarrollo del I.T.E.S.M., 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 de la UANL, Unidos por el Arte contra el Cáncer Infantil (UNAC) and Patronato del Hospital Metropolitano.

He holds a degree in International Studies from UDEM.

Experience:
- ICT Industry: CFO of Alestra from 1996 to January 1999.
- Functions: Business Management and Philanthropy.
- Industries: Aviation, Food and Entertainment.

Alternate Directors:

José Antonio Gonzáles Flores
May 5, 1970 (51 years old)

Alternate Board Member of Axtel since February 2016.

Executive Vice President of Strategic Planning and Business Development of CEMEX.

He holds an Industrial and Systems Engineering degree from ITESM and an MBA from Stanford University.

Experience:
- Functions: Finance and Strategic Planning.
- Industries: Heavy construction materials.

Senior Management:

Armando de la Peña
Chief Executive Officer (56 years old)

Armando de la Peña was appointed CEO of Axtel in April 2022. Prior to his current position, he served as Director of Sigma Foodservice. He has more than 32 years of experience, 20 of them occupying administrative positions within ALFA and in the subsidiaries Sigma and Terza. He was Director of Latin America and Director of Talent and Culture for Sigma, in addition to having been Director of Human Capital at ALFA and General Director of Terza.

He is an Industrial and Systems Engineer from the Tecnológico de Monterrey (ITESM) and has Executive programs at Stanford University, Wharton, Harvard and IPADE, among others. He is a member of Sociedad Americana de Avalúos.

Carlos Guillermo Buchanan Ortega.
Executive Director Human Capital (63 years old)

Former Managing Partner of B&S Consultores and Human Resources Director at Alestra. He served as the Human Resources Director at Telefónica Movistar, Commercial Banking at Grupo Financiero Bancomer, Bimbo, Black & Decker and Prolec G.E. He was Executive Chairman of ERIAC Capital Humano and is now a member of the board. He is a Curriculum Advisor at UDEM, Employability Advisor at Tec Milenio, Advisor to Movimiento Congruencia AC, a member of the Study Group and guest Monitor for the D1, D2 and Medex programs at the IPADE. He has experience as a speaker and professor at UDEM, ITESM and ITESO.

He holds a bachelor’s degree in Psychology with a Master's in Organizational Development and Administration from UDEM, as well as postgraduate studies at IPADE and Kellogg University.

Andrés Eduardo Cordovez Ferretto
Executive Director Infrastructure and Operations (54 years old)

He served as Executive Director of Technology and Operations in Axtel from October 2013 to January 2016. Prior to this position, he was the Director of Information Technologies and Processes. In his 27 years of professional experience, he has held various executive positions in national and multinational companies in the telecommunications, financial and services industries, being responsible for different functions such as technology, innovation, operations, customer service and sales.

He holds a bachelor’s degree in Computer Systems Engineering from ITESM and obtained a certificate degree in Senior Management from IPADE. He has completed executive development courses at the universities of Wharton, Stanford and the London Business School.

Sergio Antonio Bravo García
Executive Director Government Segment (57 years old)

He joined Alestra in 1996, where for more than 25 years, he has overseen different executive positions in areas such as: Corporate Sales, Finance and Marketing. From 2020 to April 28, 2022, he served as Director of Government Customer Service, where he now assumes the Executive Position.

He is a Computer Systems Engineer from ITESM with a Master’s degree in Administration from the same institution. He attended various executive programs at the Universities of Stanford, Wharton, Chicago and London Business School.

Adrián de los Santos Escobedo
Chief Financial Officer (54 years old)

He held the position of Corporate Finance and Investor Relations Director at Axtel until February 15th, 2017. Prior to joining Axtel in April 2006, he worked at Operadora de Bolsa y Banca Serfin (now Santander México) and Standard Chartered Bank, where he held positions in Institutional and Corporate Banking in the cities of Monterrey, London and New York.

He holds a Bachelor’s Degree in Business Administration from ITESM, with a Master's in Finance from the Carroll School of Management of Boston College.

Bernardo García Reynoso
Executive Director Business Lines (64 years old)

Joined Alfa in 1985 and joined Alestra as of its founding in 1996, holding various positions in the Sales, Marketing, Strategic Alliances, Administration and Human Resources departments. He served as the Finance Director for Alestra for seven years prior to the merger between Axtel and Alestra, upon which he took over the position of Executive Director of Planning and Development for Axtel in 2016.

He holds a degree in Industrial and Systems Engineering from ITESM, with a Master's in International Commerce from Universidad de Monterrey and an MBA from the International Institute for Management Development (IMD) of Luasanne, Switzerland.

Raúl Ortega Ibarra
Executive Director Legal and Regulatory (66 years old)

He served as Director of Government and Legal Relationships at Alestra since 1996, where he later served as Director of International Business and Communications between 2001 and 2007. Previously, he was Director of Regulatory Matters of AT&T Corp. in Mexico and former leader and founder of the representative office for Mexican business bodies in Washington, D.C.

He graduated from Universidad Iberoamericana, with executive studies in Political Economy and Management from Stanford University.

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

- Álvaro Fernandez Garza and Armando Garza Sada are cousins.
- Tomás Milmo Santos is cousin of Alberto Santos Boesch and is 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 Co-Chairman Tomás Milmo Santos.

Beneficiary shareholders of more than 10% of the issuer's capital stock, shareholders who exercise significant influence and shareholders who exercise control or power of command

The beneficiary shareholder with more than 10% of the Company's capital stock is Controladora Axtel, a company controlled by ALFA, which holds 53.9% of the Issuer's capital stock through a trust agreement entered into with Banco Invex, S.A., Institución de Banca Múltiple, Invex Financial Group. ALFA is the holding company of Axtel. As of the Spin-off, Controladora Axtel is the controlling company of Axtel, as of the date of this Annual Report, it is in the process of obtaining the corresponding authorizations for the registration of the shares of Controladora Axtel in the RNV and to be listed on the Stock Exchange for its negotiation and listing in Mexico. Each one of ALFA's shareholders will receive one share of Controladora Axtel for each share they hold in ALFA.

ALFA and a group of shareholders holding 19.8% of the Capital stock of Axtel (the "Obligated Shareholders"), which entered into a shareholders’ agreement for the purpose of regulating their relationship as shareholders of the Company, as well as the transfer of shares by ALFA and such shareholders. This shareholders’ agreement includes, among other provisions, rules for the appointment of Axtel's board of directors, qualified majority matters at general shareholders' meetings, preferential rights in the case of share transfers, joint sale rights and forced sales rights (the “Shareholders’ Agreement”). In order to implement the agreements established in the Shareholders’ Agreement, ALFA and the Obligated Shareholders entered into a management trust agreement, to which all the shares of the Obligated Shareholders and of ALFA were deposited, which together represent approximately 73.7% of the total shares of Axtel. The minimum percentage adjustments were derived from the cancellation of treasury shares approved at the Extraordinary General Shareholders' Meeting on March 7, 2022, in which the fixed portion of the share capital was reduced.

The Issuer is not controlled, directly or indirectly, by a foreign government, or by any other physical or legal person. Additionally, Axtel declares that there have been no significant changes in the last three years in the ownership percentage held by the main shareholders, except for what is mentioned in the previous paragraph. The Issuer is not aware of any commitment that could mean a change of control.

On July 12, 2022, ALFA's shareholders approved the spin-off of its shareholding in Axtel, to a new entity called Controladora Axtel which will be listed on the Mexican Stock Exchange. As of December 31, 2022 and as of the date of this Annual Report, Controladora Axtel is in the process of obtaining from the National Banking and Securities Commission authorization for the registration in the National Securities Registry, to be eligible to be listed on the Stock Exchange. ALFA shareholders will receive one share of Controladora Axtel for each of their ALFA shares, in addition to retaining their participation in ALFA's capital stock.

Except for what is mentioned in the previous paragraph, the Issuer is not aware of any commitment that could mean a change of control in its shares.

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

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

Description of the Personal Inclusion Policy / Program

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

Powers of the Board of Directors

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

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

- transactions with related persons that arise from the regular course of operations of the Company;
- acquisitions or transfers of a substantial part of the assets of the Company;
- the granting of guarantees with respect to third party obligations and
- other relevant transactions.

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

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

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

- hiring of external auditors;
- approve the disclosure policies of relevant events; and
- make decisions regarding any other matter of interest.

Axtel has a Code of Conduct, which covers the application to all employees, including members of the Board of Directors and Relevant Executives, however, the Secretary of the Board of Directors makes it known annually to the Directors and Relevant Executives of the obligations, responsibilities and recommendations of the Code of Professional Ethics of the Mexican Stock Market Community, of the Code of Principles and Best Practices of Corporate Governance and of the other applicable legal provisions of the LMV, of the General Provisions , of the Internal Regulations of the Bolsa Mexicana de Valores, S.A.B. de C.V. and others applicable.

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

All members of the Board of Directors and Relevant Directors of public limited companies, upon accepting their position as such, assume certain obligations, responsibilities and duties, which must be adhered to for the performance of their duties, always subject in accordance with the applicable legal, statutory and regulatory provisions, of which the main rules and guidelines, among others, are: act in accordance with the applicable provisions and sound market practices, act with honesty and integrity, prevail the interest of the investors, avoid conflicts of interest, provide truthful and clear information, provide security in the handling of confidential and/or privileged information, seek fair competition of services, act with the duty of fiduciary responsibility seeking to create value, comply with the duty of diligence, and act with the duty of loyalty before the Company.

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 damage caused to the Company or its subsidiaries as a result of acts or omissions described above.

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

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

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

Audit and Corporate Practices Committee

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

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

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

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

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

To date, the Company's Audit and Corporate Practices Committee members are Enrique Meyer Guzmán, Alejandro M. Elizondo Barragán and Ricardo Saldívar Escajadillo as proprietary members. The appointment of Enrique Meyer Guzmán as Chairman of said Committee was ratified at the Ordinary General Shareholders' Meeting on March 7, 2023. Counselor Alejandro M. Elizondo Barragán is Axtel's financial expert.

Compensation and Benefits

During the year concluded on December 31, 2022, each Board Member received as net compensation after the withholding of corresponding taxes, the amount of Ps. 70,000 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. 50,000 for each attendance to the Committee's meetings.

For the year ended December 31, 2022, compensation and benefits paid to the Company's main officers totaled Ps. 67 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 shares. The total amount accumulated by the Company for the pension plan of its key management personnel amounted to Ps. 111 million. On the other hand, there is no agreement of program to involve board members, executives and other employees in Axtel's capital stock.

4.4) <u>Company's Bylaws and Other Agreements</u>

Modifications in the Bylaws

The Company was incorporated on July 22, 1994, originally under the corporate name of Telefonía Inalámbrica del Norte, S.A. de C.V. Subsequently, through an Extraordinary General Shareholders' Meeting held on January 28, 1999, it changed its corporate name to Axtel, S.A. de C.V. and by means of an Extraordinary General Shareholders' Meeting held on November 11, 2005, the Company resolved, among others, to carry a public and private offering of shares and as a result, the Company's bylaws were fully amended.

On November 29, 2006, by means of the General Ordinary and Extraordinary Shareholders' Meeting, the corporate bylaws were once again fully amended, including the adoption of the stock exchange regime in accordance with the applicable legal provisions.

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

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

On January 15, 2016, Axtel and Onexa held Extraordinary Shareholders' Meetings where the merger between Axtel and Onexa was approved, date on which ALFA became the majority shareholder of Axtel, surviving entity under its current corporate name Axtel, S.A.B. de C.V.

Subsequently, on July 21, 2016, the shareholders of the Company through an Extraordinary General Shareholders' Meeting resolved, among other matters, to rectify the number of outstanding shares and shares in the Company's treasury previously approved by the Extraordinary General Shareholders' Meeting held on January 15, 2016, in which among others, the merger between Axtel, as the merging company and Onexa, as the merged company, was approved; the latter being extinguished, in which it was stated that it would proceed to reflect the relevant changes and adjustments in the capital stock derived, among others, from the conversions exercised by the holders of convertible Notes issued pursuant to the resolutions adopted by Axtel on January 25, 2013. Accordingly, it was approved to cancel 182,307,349 ordinary Class "I" Series "B" shares with no par value, representative of Axtel's capital stock in its fixed minimum part, not subscribed or paid, which had been deposited in the treasury of the Company, intended to support the conversions of the convertible Notes, whose holders did not exercise their respective conversion rights; as a consequence, the capital stock reduction was resolved in the amount of Ps. 92,398,010.82 due to the cancellation of the 182,307,349 shares representing the minimum fixed part of the capital stock. In addition, it was resolved to consolidate Axtel's capital stock into a single series by converting all outstanding Series "A" shares, representing the Company's capital stock, into Series "B" shares, of the same characteristics.

On March 10, 2017, by means of an Extraordinary General Shareholders' Meeting, the shareholders of the Company resolved to reduce the capital stock in its fixed minimum part in the amount of Ps. 9,868,331,650.99 to remain in the amount of Ps. 464,367,927.49, in order to partially absorb the negative balance of the account called "Cumulative Fiscal Year Results", a resulting balance after the application of the results of fiscal year 2016, having previously applied to said account the balance as of December 31, 2016 of the account " Share Issuance Premium ".

Subsequently, on February 27, 2018, by means of an Extraordinary General Shareholders' Meeting, the shareholders resolved to amend Clause Six of the Company's bylaws, for the sole purpose of adjusting the wording to reflect that all the shares previously held in the Company's treasury were then fully subscribed, paid and released, in accordance with the resolutions adopted at the Extraordinary General Shareholders' Meeting of the Company held on January

15, 2016, by which ALFA received 1,019,287,950 Class "I" Series "B" shares on July 18, 2017, adjustment equivalent to an increase of 2.50% of ALFA's ownership in Axtel's capital stock; shares held in the Company's treasury and released on that date, as part of the consideration agreed in the merger agreement and approved in the aforementioned Shareholders' Meeting.

Likewise, on February 26, 2019; the merger was carried out by incorporation of Avantel, S. de R.L. de C.V. and Servicios Alestra, S.A. de C.V., as merged entities, in Axtel, as merging entity.

On March 7, 2022, the Extraordinary General Shareholders' Meeting approved, among other issues, the cancellation of 424'991,364 Class "I" Series "B" common, nominative shares, with no par value, equivalent to 60,713,052 AXTELCPOs, that remained in the Company's Treasury derived from its share buyback program. As a result, the fixed portion of the Company's capital stock was reduced in the amount of Ps. 9,747,045.18, amount equal to the theoretical value of the canceled shares, remaining at $454'620,882.31 and represented by 19,824,236,117 Class "I" Series "B" shares.

Likewise, in accordance with the resolutions adopted at the Extraordinary General Shareholders' Meeting held on March 7, 2022, it was approved to reform the text of the Second Clause of Axtel's bylaws, regarding the corporate purpose, to adjust it to legislative reforms in labor matters, for which subsections a) and b) were modified, so that the text of said subsections remains as indicated below (translation from Spanish):

> *SECOND.- The corporate purpose of the Company will be the following: a).- Operate and exploit a public telecommunications network, the provision of telecommunications services through wired or wireless technologies, as well as using and exploiting frequency bands spectrum, infrastructure use rights, dark fiber rental, integration and management of connectivity, cybersecurity, internet of things, information technology and managed collaboration solutions, integration of turnkey projects and integration and management of data centers solutions as well as the administration of telecommunications infrastructure projects and turnkey projects b).- Marketing, distribution, export and sale of all kinds of telecommunications, computer and electronic equipment and the acquisition and/or operation of equipment and installation of telecommunications, national and international and of any type of technology. ..."*

Finally, on March 7, 2023, by means of the Ordinary General Shareholders' Meeting, shareholders resolved, among others, to determine the maximum amount of resources to be used for the share buyback program during year 2023 to be Ps. 100 million.

As of the date of this Annual Report, the Company has a total of 19,824,236,117 Class "I" Series "B" common shares, with no par value. Axtel is managing the update procedures for the registration of the shares and AXTELCPOs in the National Securities Registry, as a result of the agreements approved at the Extraordinary General Shareholders' Meeting dated March 7, 2022; see section *1.3) Recent relevant events*.

Shareholders' Meetings and Voting Rights

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

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

- Extending the duration of the Company or early dissolution;
- increases or reductions to the fixed part of the capital stock;
- amendment to the Company's corporate purpose and changes of nationality;
- mergers or transformations;
- issuance of bonds and preferred stock;
- any amendment to the bylaws;
- spin-offs;

- cancellation of shares at the expense of retained earnings; and
- cancellation of the registration of shares in the RNV or any other stock market (except for automatic trading systems).

Ordinary shareholders' meetings are those convened to decide on any matter not reserved for extraordinary meetings. The ordinary general shareholders' meeting shall meet at least once a year, within the first four months after the end of the fiscal year, to resolve, among other things, the following:

- Discussion and approval of the reports of the Board of Directors and the CEO referred to in the LMV and discussion about the application of the results of the immediately preceding fiscal year;
- appointment of members of the Board of Directors and the Audit and Corporate Practices Committee, as well as any other committee that may be created, as well as the determination of their compensation;
- determine the maximum amount that may be used for the share buyback program and
- discussion and approval of the annual report presented by the Chairman of the Audit and Corporate Practices Committee to the Board of Directors.

In accordance with the provisions of the LMV, the general ordinary shareholders' meeting shall, in addition to the matters described above, approve any operation involving 20% or more of the Company's consolidated assets within the same fiscal year.

To attend the shareholders' meeting, shareholders must be registered in the Company's registry book or provide sufficient evidence of the ownership of their stocks.

For an ordinary shareholders' meeting to be considered legally gathered by virtue of a first call, at least half of the Company's capital stock must be represented, and its resolutions will be valid when taken by a majority vote of the shares with voting rights represented in the meeting. In the case of second or subsequent call, ordinary shareholders' meetings may be held valid regardless of the number of shares represented and their resolutions shall be valid when taken by a majority vote of the shares with voting rights represented in the meeting. For an extraordinary shareholders' meeting to be considered legally gathered by virtue of the first call, at least three-quarters of the capital stock must be represented, and its resolutions will be valid when taken by the favorable vote of at least more than half of the stock with voting rights. In the event of a second or subsequent call, the extraordinary shareholders' meetings may be held valid if at least fifty-one percent of the Company's capital stock is represented, and their resolutions shall be valid if taken by the favorable vote of at least half of such capital stock.

Notices to call for shareholders' meetings must be made by the Board of Directors, its Chairman, its Secretary, or by one or more committees that carry out the functions of corporate and audit practices. Shareholders holding shares with voting rights, including limited or restricted vote, that individually or jointly hold at least 10% of the Company's capital stock shall be entitled to request the Chairmen of the Board of Directors or the Chairmen of the committees that carry out the functions of audit and corporate practices, to gather a general shareholders' meeting on the terms set out in Article 184 of the *Ley General de Sociedades Mercantiles*, this, notwithstanding the applicable percentage specified in such Article. Any shareholder shall have the same right referred to in both cases specified in Article 185 of the *Ley General de Sociedades Mercantiles*. If the notice for the shareholders' meeting is not done within 15 (fifteen) days following the application date, a Civil or District Judge of the Company's domicile will, at the request of any interested shareholder, issue such notice. Notices for ordinary, extraordinary, or special general meetings, must be published in the electronic system established by the Ministry of Economy and, in the case such system is not working, in any of the major newspapers of the Company's domicile, at least 15 calendar days prior to the date set for the meeting (the day in which the publication of the call is made, will be computed within the 15-day period). When the quorum has not been sufficient for a meeting, record shall be taken in the respective book, stating that fact, along with the signatures in such records of the President and Secretary and the appointed Scrutineers, stating the date of issuance of the newspaper on which such call for shareholders' meeting was published. In a second or subsequent call, the publication referred to above, must be made with no less than seven (7) calendar days prior to the date set for the new meeting. Notices shall state the place, date and time that the Meeting should be held, shall contain the agenda which may not include matters under the heading of general matters or equivalent and shall be signed by the person or persons who make them. With at least fifteen (15) calendar days prior to the date of a shareholders' meeting, all the appropriate information and documents related to each of the points contained in the agenda of the meeting must be available to shareholders at the Company's offices, free of charge. In accordance with the second paragraph of Article 178 of the *Ley General de Sociedades Mercantiles ("LGSM")*, resolutions taken outside the shareholders' meeting, by the unanimous vote of the shareholders representing all of the shares with voting rights, or special series shares if that were the case, shall for all legal purposes be deemed as valid as if they were adopted at a general or special shareholders' meeting, provided that such decisions are confirmed in writing by the shareholders.

Only persons registered as shareholders in the Share Registry Book, as well as those holding certificates stating the amount of such securities held by such person, issued by the institution for the deposit of securities, along with the list of holders of such securities issued by such institution, shall be entitled to appear or be represented at the shareholders' meeting, for which the provisions of the LMV shall be applied.

The minutes of the shareholders' meetings shall be prepared by the Secretary of the Board, or the person who had acted as Secretary of the shareholders' meeting; to be entered in the respective book and will be signed by the Chairman, Secretary and the designated scrutineers.

Dividend Payment and Settlement

Prior to the payment of any dividend, the Company shall set aside 5% of its net profits to integrate the legal reserve fund referred to in Article 20 of the *LGSM*, until such fund reaches the equivalent to 20% of the subscribed capital paid by the Company. Shareholders may agree to allocate additional amounts to the legal reserve fund, including the amounts destined for repurchase of stock. The remainder, if any, may be paid as a dividend to shareholders. Where appropriate, the payment of cash dividends to shares that are not deposited in Indeval will be made against delivery of the applicable coupon, if any.

To the extent that dividends are declared and paid to shareholders, holders of shares purchased in the U.S. or any other country other than Mexico are entitled to receive such dividends in Pesos. Currently there is no tax or withholding tax in accordance with Mexican law on shares acquired outside of Mexico or the dividends declared on such shares.

At the time of dissolution and liquidation of the Company, the ordinary general shareholders' meeting shall designate one or more liquidators, who must liquidate the Company. In the event of liquidation, all shares fully subscribed and paid shall be entitled to receive their proportional participation in the distribution of the Company's assets.

Purchase of Shares by Subsidiaries of Axtel

Any company in which Axtel is the majority shareholder may not, directly or indirectly, acquire shares of the Company or companies who own the majority of the Company's shares. In accordance with the LMV, this restriction does not apply to the acquisition of shares representing the Company's capital stock, through mutual funds.

Vote of Foreign Investors holding CPOs

On March 26, 2018, a Modification Agreement of the Irrevocable Trust Agreement No. 80471 called Axtel CPO's was signed, for the purpose of modifying, among others, the elimination of the restrictions on corporate rights to foreign holders. Therefore, the amendment to the CPOs Issuance Act was formalized on May 23, 2018 as well as the respective exchange of the CPOs before the *S.D. Indeval, Institución para el Depósito de Valores, S.A. of C.V.,* executed on July 31, 2018.

Measures to prevent the change of control in Axtel

General

The Company's bylaws provide, subject to certain exceptions, that: (A) any person who individually, or jointly with one or more Related Parties, seeking to acquire Shares or rights over Shares, by any means or title, directly or indirectly, either in an act or a succession of acts without a time limit between each other and as a result of such acquisition its shareholdings as an individual and/or jointly with the Related Party(ies) represent a participation of 5% or more, of all Series "B" Shares, shall require prior written consent from the Board of Directors and/or the Shareholders meeting, as provided below, (B) any person who individually or jointly with one or more Related Parties, which holds 5% or more of the total of Series "B" Shares, intend to acquire Shares or rights over Shares, by any means or title, directly or indirectly, whether in one transaction or a series of events without a time limit between each other and as a result, its shares holding as an individual and/or jointly with the Related Party(ies) represent a participation of 15% or more of all Series "B" Shares, as applicable, shall require prior written consent from the Board of Directors and/or the Shareholders' meeting, as provided below, (C) any person who individually or jointly with one or more Related Parties, which maintain a 15% or more of the total of Series "B" shares, intend to acquire Shares or rights over Shares, by any means or title, directly or indirectly, whether in one transaction or a series of events without a time limit between each other and as a result, its shares holding as an individual and/or jointly with the Related Party(ies) represent a participation of 25% or more of all Series "B" Shares, as applicable, shall require prior written consent from the Board of Directors and/or the Shareholders' Meeting, as provided below; (D) any person who individually or jointly with one or more Related Parties, which maintaining a 25% or more of the Series "B" Shares, intends to acquire Shares or rights over Shares, by any means or title, directly or indirectly, whether in an act or a succession of acts without a time limit between each other and as a result, its shareholding as an individual and/or jointly with the Related Party(ies) represent 35% or more of all Series "B" Shares, as applicable, shall require prior written consent from the Board of Directors and/or the Shareholders' Meeting, as provided below, (E) any person who individually or jointly with one or more Related Parties, which maintained a 35% or more of the Series "B" Shares, intends to acquire Shares or rights over Shares, by any means or title, directly or indirectly, whether in one transaction or a series of events without a time limit between each other and as a result its shareholding as an individual and/or in conjunction with the Related Party(ies) represent 45% or more of all Series "B" Shares, as applicable, shall require prior written consent from the Board of Directors and/or the Shareholders' Meeting, as provided below, (F) any person who is a competitor of the Company or of any Subsidiary of the Company, who individually or together with one or more Related Parties, intend to acquire Shares or rights over Shares, by any means or title, directly or indirectly, whether in one transaction or a series of events without a time limit between each other and as a result their shareholding as an individual and/or jointly with the Related Party(ies) represent 3% or more of all Series "B" Shares, or its multiples thereof, shall require prior written consent of the Board of Directors and/or the Shareholders' Meeting, as applicable.

The person who acquires shares without having complied with any of the procedures, requirements, authorizations and other provisions set forth in the corporate bylaws, shall not be registered in the Company's share registry and consequently, such person will not be able to exercise the corporate rights corresponding to such Shares, specifically including the right to vote at shareholders' meetings, unless the Board of Directors or the general extraordinary shareholders' meeting authorizes otherwise. In the case of Persons who already are shareholders of the Company and, therefore, the ownership of their shares has already been entered in the Company's shares registry, the shares acquired without having complied with the procedures, requirements, authorizations and other provisions of such clause of the bylaws will not be entered in the Company's registry of shares and, accordingly, such persons may not exercise the corporate rights that apply to such actions, specifically including the right to vote in shareholders' meetings, unless the Board of Directors or the general extraordinary shareholders' meeting authorizes otherwise. In the cases in which any of the procedures, requirements, authorizations and other provisions provided for in the Company's bylaws, the certificates or listing of records referred to in the first paragraph of Article 290 of the LMV are not met, ownership of the Shares shall not be proved, neither the right to attend shareholders' meetings and the inscription in the shares registration, nor exercise of any actions, including those of a procedural nature, shall be deemed as legitimated, unless the Board of Directors or the general extraordinary shareholders' meeting authorizes otherwise. Additionally, and in accordance with Article 2117 of the Federal Civil Code, any person who acquires shares in violation of the provisions of the Company's bylaws, shall be required to pay a penalty to the Company for an amount equivalent to the price paid for all the Shares that were wrongfully acquired. In the case of shares acquired in violation of the provisions of the bylaws and free of charge, the penalty shall be for an amount equal to the market value of the wrongfully acquired Shares. Approvals granted by the Board of Directors or the Shareholders' Meeting as provided in the bylaws, shall cease to have effect if the information and documentation based on which these approvals were granted is not or ceases to be true. Likewise, the person who acquires shares in violation of the provisions of the bylaws, must transfer the wrongfully acquired Shares, to a third party approved by the Board of Directors or the Company's general extraordinary shareholders' meeting, in which case, the provisions for such matters contained in the Company's bylaws must be followed and complied with in order to carry out such disposal, including delivery to the Board of Directors of the Company, through its Chairman and Secretary, of the information referred to in the bylaws.

Requirements and Approvals of the Board of Directors and Shareholders Meeting

To obtain the prior consent of the Board of Directors, the potential acquirer must submit an authorization request, which must contain certain specific information. During the authorization process, certain terms must be met. The Board of Directors may, without liability, submit the request for authorization to the general extraordinary shareholders' meeting for resolution. The determination of the Board of Directors to submit for the consideration of the Shareholders' Meeting must consider different factors such as the potential conflict of interest, equity in the proposed price or when the Board is not able to meet having been convened more than twice, among other factors. The Board of Directors may reject any authorization previously granted before the date on which the transaction is consummated, in the event the Board receives a better offer for the Company's shareholders. If the Board of Directors or the Shareholders' Meeting does not resolve, in a negative or positive sense, on the terms and forms established in Axtel's bylaws, it is understood that the request for authorization to acquire shares in question has been denied.

Mandatory Public Tender Offer to Purchase in Certain Acquisitions

In the event that the Board of Directors authorizes the requested acquisition of Shares and said acquisition involves the acquisition of a participation of between 20% or 40% in the Company and notwithstanding the approval, the Person who intends to acquire such Shares must make a public tender offer to purchase, in cash and at a price determined in accordance with the procedure established in the following paragraph, for an additional 10% of the Company's capital stock, without such acquisition, including the additional, exceeding half of the ordinary shares with voting rights or implying a change of Control in the Company.

In the case that the Board of Directors or the General Extraordinary Shareholders' Meeting, as the case may be, approves an acquisition that may result in a change of control, the acquirer in question must make a public tender offer to purchase 100% minus one, of the existing Shares of the Company, at a price payable in cash that shall not be less than the price that is greater than the following:

> a) The book value of the shares, according to the latest quarterly income statement approved by the Board of Directors; or b) the highest closing price of the shares during the 365 days prior to the date of the authorization granted by the Board of Directors; or c) the highest price paid in the purchase of Shares at any time by the Person who individually or jointly, directly or indirectly, acquires the Shares subject to the authorization by the Board of Directors; or d) the highest enterprise value multiple of the Company for the last 36 months, multiplied by the EBITDA known for the last 12 months minus the most recent known net debt. The aforementioned enterprise value multiple corresponds to the market value of the Company (the share or CPO closing price multiplied by the total number of shares or CPOs outstanding representative of 100% of the Company's capital stock) plus the known net debt, divided by the known last 12-months EBITDA.

Any public tender offer that must be conducted in relation to the foregoing shall be subject to certain specific requirements. All shareholders of the Company must be paid the same price for their shares in the public tender offer. The provisions of the Company's bylaws summarized in this paragraph, related to the mandatory tender offer for certain acquisitions, is generally more rigid than the provisions of the LMV. Some of the provisions of the bylaws relating to the public tender offer in the case of certain acquisitions differ from the requirements established in the LMV, in the understanding that the provisions of the bylaws grant greater protection to minority shareholders than those provided by law. In these cases, the provisions contained in the bylaws and not the corresponding provisions of the LMV, will apply to the acquisitions specified herein.

Exceptions

The provisions of the Company's bylaws summarized above, do not apply to acquisitions or transfers of Shares that are carried out by succession, to those acquired by the Person(s) who control the Company and those managed by Axtel, its subsidiaries or affiliates or by any trust created by the Company or any of its subsidiaries, among others.

Amendments to the Provisions on the Protection against hostile takeover

Any amendment to the provisions relating to protection against hostile takeover must be made in accordance with the terms established by the LMV and registered in the Public Registry of Commerce at the Company's domicile.

Other provisions

Appraisal Rights and Other Minority Rights

If shareholders agree to modify the Company's corporate purpose, nationality or agree to transform it into other type of corporation, any shareholder who voted against the amendment may exercise its withdrawal right, receiving the book value of shares (in accordance with the last balance sheet approved by the shareholders), provided that the withdrawal request is submitted within 15 days following the day in which such amendments were adopted.

In accordance with the LMV, issuers are required to observe certain minority rights, including rights that allow:

- shareholders representing at least 10% of the duly subscribed and paid capital stock of the Company, to call for a meeting in which they are entitled to vote;
- shareholders representing at least 15% of the Company's capital stock, to claim, subject to certain legal requirements, certain civil responsibilities against the members of the Board of Directors of the Company;
- shareholders representing at least 10% of the stock with voting rights who are present or represented at a shareholders' meeting, may request to postpone the voting of issues on which there are not sufficiently informed; and
- shareholders representing at least 20% of the duly subscribed and paid capital stock, to oppose and stop any resolution adopted by the shareholders, subject to compliance with certain legal requirements.

Additionally, and in accordance with the LMV, Axtel is subject to comply with certain corporate governance issues, including the requirement to maintain a committee performing the functions of Audit and corporate practices and the election of independent directors.

The rights granted to minority shareholders and the liabilities of the Company's directors under Mexican law are different from those given by law in the United States and other countries. Mexican courts have not ruled exhaustively in relation to the responsibilities of board members, unlike the courts of different states of the United States, where court rulings in this matter have identified some of the rights attributable to minority shareholders. Mexican procedural law does not contemplate the possibility of class actions or shareholder lawsuits, which in the United States allow shareholders to incorporate other shareholders into their claims or to exercise rights attributable to the Company. Shareholders of Mexican companies do not have the power to oppose resolutions adopted at shareholders' meetings unless they strictly comply with procedural requirements. As a result of the foregoing, it is usually more complicated for the minority shareholders of Mexican corporations to file lawsuits against the Company or its board members, in comparison with the shareholders of companies in the United States.

Responsibilities of Board Members and Committee Members

Liability claims against board members and committee members will be subject under the provisions stated in the LMV. In accordance with the LMV, shareholders representing at least 5% of the Company's capital stock may exercise liability claims against board members in case of breach of duties of due diligence and loyalty and may obtain for the benefit of the Company, the payment of an indemnity equivalent to the amount of damages and losses. These liability actions are prescribed at the end of five years and may not be exercised if the board members are protected by the exceptions stated in the LMV.

Conflicts of Interest

A shareholder who votes on any resolution in which there is a conflict of interest may incur in a responsibility for direct and consequential damages incurred to the Company, provided that the resolution could not have been approved without the affirmative vote of such shareholder. Additionally, a member of the Board of Directors or a committee member that performs audit and corporate governance functions, that have any conflict of interest must inform the other members of such board or committee, or of the Company and restrain from voting on any resolution regarding such matter. Failure to comply with these obligations by a board member or committee member that performs audit and corporate governance functions may result in liability to such board member or committee member in question as well as in the payment of damages.

The Board of Directors shall carry out all acts not reserved by law or by the bylaws to the shareholders' meeting and shall have the functions, duties and powers established and provided for in the LMV and other applicable legal provisions. See Section *Powers of the Board of Directors* on this *Annual Report*.

Suspension of the Resolutions Adopted by Shareholders

Holders of shares with voting rights, including limited or restricted vote, who individually or jointly hold 20% or more of the Company’s capital stock, may judicially oppose the resolutions of the general shareholders’ meetings in which they were entitled to vote. The above, subject to the terms and conditions set forth in Article 201 of the *Ley General de Sociedades Mercantiles*, without the percentage referred to that article and Article 202 of the aforementioned law being equally applicable.

Admission of Foreigners

In accordance with applicable law, the Company’s bylaws state that when acquiring Company’s shares, foreign shareholders are obliged to: (i) be considered as Mexican in everything relating to their shares, properties, rights, concessions, participations or interests in which the Company is the holder and the rights and obligations resulting from any contract between the Company and the federal government and (ii) do not seek the protection of their government. If a shareholder invokes such protection, in contravention with the provisions of the bylaws, it’s bound to lose its Shares in benefit of the Mexican Nation. This prohibition does not apply to legal proceedings before foreign courts.

Jurisdiction

The Company’s bylaws state that any dispute between the shareholders and the Company, or between the shareholders on matters relating to the Company, the parties hereby agree to submit such matters to the jurisdiction of the courts located on the state of Nuevo Leon, Mexico.

CPO Trust and other agreements

The Company is listed on the BMV through non-redeemable CPOs issued under the CPO Trust, each representing 7 Series "B" Class "I" shares of the capital stock of Axtel. The holders of CPOs that are considered investors, may instruct the Trustee to exercise the right to vote with respect to the Shares underlying the CPOs of their ownership, in the event that the investors do not issue the respective instruction up to 3 days before the respective Shareholders' Meeting, the Trustee shall cast their vote in the same way as most of the holders of Series "B" Shares considered investors do so.

On the other hand, ALFA and a group of shareholders holding approximately 19.8% of the capital stock of Axtel, entered into a Shareholders’ Agreement to regulate their relationship as shareholders of the Company, as well as the transfer of shares from ALFA and such shareholders. This Shareholders’ Agreement contains, among other provisions, rules for the appointment of the board of directors of Axtel, matters of qualified majority in general shareholders' meetings, preferential rights in the case of transfers of shares, joint selling rights and forced sales rights.

Except as provided by the Company's bylaws, by the CPO Trust and the Shareholders' Agreement, there are no other statutory clauses or agreements between shareholders or other mechanisms that limit or restrict the Company's management or its shareholders.

5. STOCK MARKET

5.1) Shareholders' Structure

The CPOs of the Company are conformed by Series "B" Class "I" Shares of Axtel's capital stock. They represent 7 Shares of the aforementioned Series and are listed on the BMV. Controladora Axtel, a society controlled by ALFA, owns approximately 53.9% of the shares representing Axtel's capital stock, this derived from the Spin-off, a society that is managing the corresponding authorizations for the registration of its shares in the RNV and to be listed on the Stock Exchange.

5.2) Stock Performance in the Stock Market

The following table shows the maximum and minimum prices of AXTELCPOs.

	Maximum	Minimum	Volume
	(Pesos per CPO)		*(in thousands)*
Annual Maximum and Minimum:			
2018	4.89	2.91	368,345
2019	3.27	2.04	408,431
2020	8.45	2.57	411,676
2021	6.78	3.75	271,929
2022	4.23	1.26	247,914
2020:			
First Quarter	4.35	2.82	95,450
Second Quarter	4.23	2.57	105,484
Third Quarter	7.22	3.94	123,490
Fourth Quarter	8.45	5.70	87,253
2021:			
First Quarter	6.11	5.08	58,781
Second Quarter	6.78	5.19	72,066
Third Quarter	6.02	4.70	70,011
Fourth Quarter	5.09	3.75	71,070
2022:			
First Quarter	4.23	2.70	63,724
Second Quarter	2.81	1.52	128,081
Third Quarter	1.59	1.26	27,676
Fourth Quarter	1.64	1.36	27,939
Monthly Maximum and Minimums:			
2022:			
January	4.23	3.40	14,527
February	3.87	3.12	14,712
March	3.16	2.7	34,485
April	2.81	2.17	17,722
May	2.19	1.58	93,146
June	1.86	1.52	17,213
July	1.59	1.39	10,362
August	1.4	1.26	10,948
September	1.56	1.31	8,905
October	1.49	1.36	6,993
November	1.61	1.42	5,768
December	1.64	1.36	15,317
2023:			
January	1.48	1.34	10,142
February	1.49	1.24	17,593
March	1.33	1.25	58,034

5.3) <u>Market Maker</u>

As of December 31, 2022, Axtel has not entered into a Market Maker contract with any intermediary.

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 2022 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. Armando de la Peña González
Director General

Ing. Adrián Gerardo de los Santos Escobedo
Director de Finanzas

Lic. Carlos Jiménez Barrera
Director Jurídico

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 2022

Galaz, Yamazaki,
Ruiz Urquiza, S.C.
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64000 Monterrey,
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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 Entidades y Emisoras supervisadas por la Comisión Nacional Bancaria y de Valores que contraten servicios de auditoría externa de estados financieros básicos, publicadas en el Diario Oficial de la Federación ("DOF") del 26 de abril de 2018 y sus modificaciones posteriores (las "Disposiciones") y del Artículo 84 Bis de las Disposiciones de carácter general aplicables a las emisoras de valores y otros participantes del mercado de valores publicadas en el DOF del 19 de marzo de 2003 y sus modificaciones posteriores (la "Circular Única de Emisoras"), en nuestro carácter de auditores externos independientes de los estados financieros básicos consolidados por los años que terminaron el 31 de diciembre de 2022, 2021 y 2020 de Axtel, S. A. B. de C. V., manifestamos lo siguiente:

I. Que expresamos nuestro consentimiento para que la Emisora incluya en el reporte anual, el Informe de Auditoría Externa que al efecto emitimos.

II. Lo anterior en el entendido de que previamente nos cercioramos que la información contenida en los Estados Financieros Básicos Consolidados incluidos en el reporte anual, así como cualquier otra información financiera comprendida en dichos documentos cuya fuente provenga de los mencionados Estados Financieros Básicos Consolidados o del Informe de Auditoría Externa que presentamos coincide con la información financiera auditada, con el fin de que dicha información sea hecha del conocimiento público.

Atentamente,

Galaz, Yamazaki, Ruiz Urquiza, S.C.
Afiliada a una Firma Miembro de Deloitte Touche Tohmatsu Limited

C.P. Jaime Luis Castilla Arce	C.P.C. Efrain Omar Fernández Mendoza
Apoderado *(Representante Legal)*	Auditor externo
Monterrey, Nuevo León, México	Monterrey, Nuevo León, México

* * * * *

Los suscritos manifestamos, bajo protesta de decir verdad, que los estados financieros de Axtel, S. A. B. de C. V. (la "Emisora") que contiene el presente reporte anual por los ejercicios al 31 de diciembre de 2022, 2021 y 2020 y por los años que terminaron en esas fechas, contenidos en el presente reporte anual, fueron dictaminados con fecha 31 de enero de 2023, 2022 y 2021, respectivamente, de conformidad 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 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 su opinión respecto de la otra información contenida en el reporte anual que no provenga de los estados financieros consolidados dictaminados.

C.P. Jaime Luis Castilla Arce
Apoderado *(Representante Legal)*
Monterrey, Nuevo León, México

C.P.C. Efrain Omar Fernández Mendoza
Auditor externo
Monterrey, Nuevo León, México

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, 2022, 2021 and 2020, and Independent Auditors' Report Dated January 31, 2023

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, 2022, 2021 and 2020

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

Opinion

We have audited the consolidated financial statements of Axtel, S. A. B. de C. V. and Subsidiaries (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2022, 2021 and 2020, the consolidated statements of income, the consolidated statements of comprehensive income (loss), the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows for the years 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 Axtel, S. A. B. de C. V. and Subsidiaries, as of December 31, 2022, 2021 and 2020, and their consolidated financial performance and their consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

Basis for Opinion

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

Other Matters

The accompanying consolidated financial statements have been translated from Spanish to English for the convenience of readers.

Key Audit Matter

The key audit matter is the matter that, in our professional judgment, is of most significance in our audit of the 2022 consolidated financial statements. This matter was addressed in the context of our audit of the consolidated financial statements, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Assessment of Impairment of Long-lived Assets

As described in Note 3 and 12 to the consolidated financial statements, the Company performs impairment tests to the long-lived assets.

We have identified the evaluation of long-lived assets with definite useful life and goodwill as a key audit matter, mainly due to the fact that impairment tests involve the application of judgments and significant estimates by the Company's management in determining the assumptions, premises, cash flows, budgeted income, and the selection of discount rates used to estimate the recoverable value of the cash generating unit ("CGU"), besides the relevance of the balance for the consolidated financial statements of the Company, which is made up of property, plant and equipment for $9,044,067 thousand pesos, goodwill of $322,782 thousand pesos, and intangible assets with a definite useful life of $840,958 thousand pesos. This requires a high level of judgement, an important increase in the level of audit effort and the incorporation of our expert valuation specialists.

We performed the following audit procedures on the following significant assumptions that the Company considered when estimating future projections to evaluate the recovery value of long-lived assets, among others; projections of income and expenses, expected gross and operating profit margins, discount rate, the industry growth rate, income projections, discount rate, comparison of the expected gross profit margin, projected flows. As follows:

- We tested the design and implementation of the controls on the determination of the recovery value and the assumptions used.
- We evaluated with the assistance of our valuation specialists, the reasonableness of the i) methodology for determining the recovery value of intangible assets with definite useful lives and goodwill and ii) we challenge the financial projections, comparing them with the performance and historical trends of the business and corroborating the explanations of the variations with the administration. Likewise, we evaluated internal processes and management's ability to accurately carry out projections, including the approval of these by the Board of Directors.
- We analyzed the projection assumptions used in the impairment model, specifically including the projections of cash flow, operating margins, profit margin before financial result, taxes, depreciation and amortization ("EBITDA") and long-term growth. We test the mathematical accuracy, completeness, and accuracy of the impairment model. The valuation specialists performed a sensitivity analysis for the CGU, independent calculations of the recovery value to assess whether the assumptions used would need to be modified and the probability that such modifications would occur.
- We independently evaluated the applicable discount rates, comparing them with the discount rates used by management.

The results of our procedures were satisfactory.

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

The Company's management is responsible for the additional information presented. Additional information includes; i) the Annual Stock Exchange Filing, ii) the information to be incorporated into the Annual Report that the Company is required to prepare in accordance with Article 33, section I, subsection b) of Title Four, Chapter One of the General Provisions Applicable to Issuers and other Participants of the Stock Market in Mexico and the Instructions that accompany these provisions (the "Provisions"). It is expected that the Annual Stock Exchange Filing and the Annual Report to be available for our reading after the date of this audit report; and iii) other additional information, which corresponds to measures that are not required by IFRS, and have been incorporated for the purpose of providing additional explanation to its investors and main readers of its consolidated financial statements to evaluate the performance of each of the operating segments and other indicators on the ability to meet obligations regarding the Earnings before interest, taxes, depreciation, amortization and asset impairment ("adjusted EBITDA") and the Business Unit Contribution ("BUC") of the Company, this information is presented in Notes 17 and 29.

Our opinion of the consolidated financial statements will not cover the additional information and we will not express any form of assurance about it.

In connection to our audit of the consolidated financial statements, our responsibility will be to read the additional information, when available, and in doing so, consider whether the financial information contained therein is materially inconsistent with the consolidated financial statements or with our knowledge obtained during the audit, or otherwise appears to contain a material error. When we read the Annual Report, we will issue the declaration on its reading, required in Article 33, Section I, subsection b), number 1.2. of the Provisions. Additionally, and in relation to our audit of the consolidated financial statements, our responsibility is to read and recalculate the additional information, which in this case are the measures not required by IFRS and in doing so, consider whether the other information contained therein is inconsistent in material form with the consolidated financial statements or with our knowledge obtained during the audit, or that seems to contain a material error. If based on the work we have performed, we conclude that there is a material error in the additional information, we are required to communicate the matter. As of the date of this report, we have nothing to inform in this regard.

Responsibilities of Management and those Charged with Governance for the Consolidated Financial Statements

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

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

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

Independent Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated 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 audit of the consolidated financial statements of the Company. 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 for the year 2022 and is therefore the key audit matter. We describe this matter 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. Efraín Omar Fernández Mendoza
Monterrey, Nuevo León México
January 31, 2023

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, 2022, 2021 and 2020
Thousands of Mexican pesos

	Note	2022	2021	2020
Assets				
Current assets:				
Cash and cash equivalents	6	$ 1,542,831	$ 1,613,697	$ 3,123,955
Restricted cash	7	-	-	261,827
Trade and other accounts receivable, net	8	1,928,725	2,492,754	2,901,248
Inventories	9	169,838	85,442	78,720
Derivative financial instruments	4	4,696	-	-
Prepayments	3.j	739,229	634,792	713,711
Total current assets		4,385,319	4,826,685	7,079,461
Non-current assets:				
Property, plant and equipment, net	10	9,044,067	10,132,948	11,577,650
Right of use asset, net	11	364,711	498,522	592,871
Goodwill and intangible assets, net	12	1,163,740	1,300,204	1,260,696
Deferred income taxes	20	2,957,955	2,856,110	2,540,543
Other non-current assets	13	435,605	359,990	652,624
Total non-current assets		13,966,078	15,147,774	16,624,384
Total assets		$18,351,397	$19,974,459	$23,703,845
Liabilities and Stockholders' Equity				
Current liabilities:				
Debt	17	$ 375,506	$ 252,072	$ 1,609,301
Lease liability	18	220,968	264,264	294,749
Trade and other accounts payable	14	2,582,573	2,844,167	3,851,293
Provisions	15	25,316	29,484	18,417
Deferred income	16	45,208	86,052	116,054
Derivative financial instruments	4	-	33,575	154,077
Total current liabilities		3,249,571	3,509,614	6,043,891
Non-current liabilities:				
Debt	17	11,184,614	12,607,365	13,034,985
Lease liability	18	99,990	219,990	332,275
Employee benefits	19	891,255	766,500	742,847
Derivative financial instruments	4	-	-	53,120
Deferred income taxes	20	75,560	1,134	1,454
Total non-current liabilities		12,251,419	13,594,989	14,164,681
Total liabilities		15,500,990	17,104,603	20,208,572
Stockholders' equity:				
Capital stock	21	454,621	464,368	464,368
Retained earnings		2,416,317	2,445,384	3,252,002
Other comprehensive loss		(20,531)	(39,896)	(221,097)
Total controlling interest		2,850,407	2,869,856	3,495,273
Non-controlling interest		-	-	-
Total stockholders' equity		2,850,407	2,869,856	3,495,273
Total liabilities and stockholders' equity		$18,351,397	$19,974,459	$23,703,845

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, 2022, 2021 and 2020
Thousands of Mexican pesos

	Note	2022	2021	2020
Revenues	22	$10,479,596	$11,389,494	$12,355,981
Cost of sales	23	(5,164,025)	(5,785,728)	(6,171,287)
Gross profit		5,315,571	5,603,766	6,184,694
Administration and selling expenses	23	(5,218,193)	(4,958,159)	(5,412,063)
Other income (expenses), net	24	76,494	(353,359)	1,999,869
Operating income		173,872	292,248	2,772,500
Financial income	25	286,179	24,909	38,878
Financial expenses	25	(1,058,354)	(1,188,709)	(1,378,015)
Exchange fluctuation gain (loss), net	25	511,257	(277,595)	(385,284)
Gain on changes in fair value of financial instruments		-	-	105,809
Financial result, net		(260,918)	(1,441,395)	(1,618,612)
(Loss) income before income taxes		(87,046)	(1,149,147)	1,153,888
Income taxes benefit (expense)	20	48,232	352,405	(792,633)
Net consolidated (loss) income		$ (38,814)	$ (796,742)	$ 361,255
(Loss) income attributable to:				
Controlling interest		(38,814)	(796,742)	361,255
Non-controlling interest		-	-	-
		$ (38,814)	$ (796,742)	$ 361,255
(Loss) income per basic and diluted share		(0.002)	(0.040)	0.018
Weighted average common outstanding shares (thousands of shares)		19,824,236	19,829,510	19,987,579

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

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

Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2022, 2021 and 2020
Thousands of Mexican pesos

	Note	2022	2021	2020
Net consolidated (loss) income		$(38,814)	$(796,742)	$361,255
Other comprehensive (loss) income for the year:				
Items that will be reclassified to the consolidated statement of income:				
Effect of currency translation	20	(1,446)	732	1,152
Fair value of derivative financial instruments, net of taxes		24,284	120,279	(43,679)
Items that will not be reclassified to the consolidated statement of income:				
Remeasurements of employee benefits, net of taxes	20	(3,473)	60,190	(20,752)
Total other comprehensive income (loss) for the year		19,365	181,201	(63,279)
Total comprehensive (loss) income of the year		$(19,449)	$(615,541)	$297,976
Attributable to:				
Controlling interest		$(19,449)	$(615,541)	$297,976
Non-controlling interest		-	-	-
Comprehensive (loss) income of the year		$(19,449)	$(615,541)	$297,976

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 Stockholders' Equity

For the years ended December 31, 2022, 2021 and 2020
Thousands of Mexican pesos

	Capital stock	Retained earnings	Other comprehensive loss	Total controlling interest	Non-controlling interest	Total stockholders' equity
Balances as of January 1, 2020	$ 464,368	$3,104,427	$ (157,818)	$3,410,977	$ -	$ 3,410,977
Transactions with stockholders:						
Repurchase of shares	-	(213,680)	-	(213,680)	-	(213,680)
Total transactions with stockholders	-	(213,680)	-	(213,680)	-	(213,680)
Net consolidated income	-	361,255	-	361,255	-	361,255
Total other comprehensive loss for the year	-	-	(63,279)	(63,279)	-	(63,279)
Comprehensive income	-	361,255	(63,279)	297,976	-	297,976
Balances as of December 31, 2020	464,368	3,252,002	(221,097)	3,495,273	-	3,495,273
Transactions with stockholders:						
Repurchase of shares	-	(9,876)	-	(9,876)	-	(9,876)
Total transactions with stockholders	-	(9,876)	-	(9,876)	-	(9,876)
Net consolidated loss	-	(796,742)	-	(796,742)	-	(796,742)
Total other comprehensive loss for the year	-	-	181,201	181,201	-	181,201
Comprehensive loss	-	(796,742)	181,201	(615,541)	-	(615,541)
Balances as of December 31, 2021	464,368	2,445,384	(39,896)	2,869,856	-	2,869,856
Transactions with stockholders:						
Cancellation of shares	(9,747)	9,747	-	-	-	-
Total transactions with stockholders	(9,747)	9,747	-	-	-	-
Net consolidated loss	-	(38,814)	-	(38,814)	-	(38,814)
Total other comprehensive income for the year	-	-	19,365	19,365	-	19,365
Comprehensive loss	-	(38,814)	19,365	(19,449)	-	(19,449)
Balances as of December 31, 2022	$454,621	$2,416,317	$ (20,531)	$2,850,407	$ -	$2,850,407

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, 2022, 2021 and 2020
Thousands of Mexican pesos

	2022	2021	2020
Cash flows from operating activities			
(Loss) income before income taxes	$ (87,046)	$(1,149,147)	$1,153,888
Depreciation and amortization	2,806,263	3,179,364	3,384,219
Exchange fluctuation (gain) loss, net	(511,257)	277,595	385,284
Allowance for doubtful accounts	346,861	(2,600)	48,891
(Gain) loss from sale of property, plant and equipment	(25,449)	1,327	(2,022,963)
Interest income	(286,179)	(24,909)	(38,878)
Interest expense	1,058,354	1,188,709	1,378,015
Current PTU	10,545	5,426	6,891
Impairment of goodwill	-	-	96,754
Impairment of investments	22,844	290,114	-
Others	6,318	36,114	72,539
Change in unrealized fair value and settlement of financial instruments	-	-	(105,809)
Changes in working capital:			
Trade and other accounts receivable, net	145,531	505,562	420,656
Inventories	(81,592)	20,049	85,859
Trade accounts payable and other accounts payable	(268,569)	(677,132)	(528,915)
Employee benefits	119,794	109,638	17,703
Paid PTU	(5,411)	(5,973)	(11,847)
Deferred income	(40,844)	(30,002)	(37,175)
Subtotal	3,210,163	3,724,135	4,305,112
Income taxes paid	(2,312)	(432,580)	(97,274)
Net cash flows generated by operating activities	3,207,851	3,291,555	4,207,838
Cash flows from investing activities			
Acquisitions of property, plant and equipment	(1,306,677)	(1,290,512)	(1,591,980)
Disposal of property, plant and equipment	40,209	-	3,147,703
Acquisition of intangible assets	(24,784)	(242,000)	(553,826)
Interest received	83,945	24,909	38,877
Restricted cash	-	258,891	(247,104)
Investment in shares of Altán	-	-	(64,568)
Notes receivable	-	(19,579)	-
Net cash flows (used in) generated by investing activities	(1,207,307)	(1,268,291)	729,102
Cash flows from financing activities			
Proceeds of current and non-current debt	-	-	1,485,012
Payments of current and non-current debt	(776,735)	(2,174,476)	(1,411,749)
Lease payments	(276,453)	(332,412)	(545,855)
Payment of account payable to holding company	-	-	(713,972)
Repurchase of shares	-	(9,876)	(213,680)
Interest paid and other financial expenses	(987,103)	(1,084,878)	(1,200,297)
Net cash flows used in financing activities	(2,040,291)	(3,601,642)	(2,600,541)
Net (decrease) increase of cash and cash equivalents	(39,747)	(1,578,378)	2,336,399
Effect of changes in exchange rates	(31,119)	68,120	(70,186)
Cash and cash equivalents at the beginning of the year	1,613,697	3,123,955	857,742
Cash and cash equivalents at the end of the year	$ 1,542,831	$1,613,697	$3,123,955
Non-cash investing activities	$ 36,769	$ -	$ -

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 corporate offices are located at Avenida Munich No. 175 Colonia Cuauhtémoc, 66450 San Nicolás de los Garza, Nuevo León, Mexico.

Axtel is a publicly owned corporation, whose shares are registered at the National Securities Registry and are traded at the Mexican Stock Exchange ("Bolsa Mexicana de Valores" in Spanish) through Certificates of Participation ("CPOs") issued under the Trust whose trustee is Nacional Financiera, Sociedad Nacional de Crédito, Development Finance Institution. The Company is subsidiary of Alfa, S. A. B. de C. V. ("Alfa"), its holding, which exercises control and holds 53.9% of the shares representing the Company's capital stock, through the Trust Administration Agreement No. 2673 entered into with Banco Invex, S. A. On July 12, 2022, the General Extraordinary Shareholders' Meeting of Alfa approved the partial spin-off of their total shareholding in the Company, as well as other assets and equity, to Controladora Axtel, S.A.B. de C.V. ("Controladora Axtel"), the spinnee company, which will be listed on the Mexican Stock Exchange. See Note 2.a.

The Company is an Information and Communication Technology company that serves the enterprise, government and wholesale markets, through its business units Alestra (services) and Axtel Networks (infrastructure). The business and government portfolios include advanced solutions for managed networks, collaboration and information technology (IT) such as systems integration, cloud services, cybersecurity, among others. On the other hand, the connectivity solutions of the infrastructure unit for wholesale clients or operators (including the services unit) include last-mile access, IP transit, spectrum, fiber to the tower and fiber to the data center, among others. Concessions are required to provide these services and conducting the Company's business activities. See Note 12.

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

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

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

2. Relevant events

<u>2022</u>

a. Spin-off of ALFA's equity participation in Axtel and creation of Controladora Axtel

On July 12, 2022, Alfa SAB Stockholders approved the spin-off of its entire ownership interest in Axtel. Alfa SAB carried out the process as a spinnor company and a variable capital stock corporation was incorporated as the spinnee company ("Controladora Axtel"), which will be listed on the Mexican Stock Exchange.

The process is subject to certain conditions precedent, among which is the registration of Controladora Axtel as an issuer listed on the Mexican Stock Exchange, which as of December 31, 2022, and as of the date of issuance of the financial statements, has not been completed.

b. Appointment of new CEO

The Company announced Armando de la Peña González as its Chief Executive Officer ("CEO") as of May 1, 2022.

On April 26, Axtel's Board of Directors unanimously approved this appointment. Eduardo Escalante Castillo, Axtel's Acting CEO since January 22, 2021, returned full-time to his duties as Alfa's Finance Director.

c. Impairment in investment in shares and accounts receivable from Altán Redes S.A.P.I. de C.V. ("Altán")

The Company has a stockholding equivalent to 0.42% in Altán's capital stock as of December 31, 2022. Likewise, Axtel is a supplier of telecommunications and IT services for Altán.

On November 12, 2021, Altán was declared in concurso mercantil (commercial insolvency) and from the day of publication of the judgment in the Official Federal Gazette, Altán has an initial conciliation period of 185 calendar days that may be extended for two more periods of 90 calendar days.

In November 2022, Altán announced that, on October 28, 2022, the First District Court for Commercial Bankruptcy agreed to approve the bankruptcy agreement as an enforceable judgment, thus concluding its commercial insolvency process.

As a result of the foregoing, Management recognized an impairment of $21,966 and $290,114 in 2022 and 2021, respectively, for the value of its investment (See Note 24). As of December 31, 2022, 2021 and 2020, the net balance receivable from Altán amounts to $31,262, $304,429, and $131,355, respectively, before considering value added tax.

d. Repurchase of Senior Notes

The Company made repurchases of its Senior Notes due in 2024 and coupon of 6.375%, for a total of $754,318 (US$37,777) of principal. As of December 31, 2022, the balance of the Senior Notes due in 2024 is $7,787,641 (US$402,223).

Derived from this operation, the Company immediately recognized in the consolidated statement of income, the corresponding debt issuance costs, related to the Senior Notes that were outstanding which amounted $4,505.

2021

e. Effects of the COVID-19

On March 11, 2020, the World Health Organization declared a pandemic due to the infectious disease caused by the SARS-COV2 virus (hereinafter "COVID-19"). COVID-19 had and continues to have strong impacts on health, economic, and social systems worldwide.

The Company, through its subsidiaries, takes steps to counteract the effects that COVID-19 has had on the economic markets in which it participates, focusing on strengthening operating and financial performance by constantly monitoring its cost structure, key business processes, and a commitment to its employees, through a special focus, on the redefinition and capitalization of experiences; related to the remote work scheme; maintain a solid liquidity structure through detailed management of cashflows; and constant monitoring of its financial position to ensure compliance with the stipulated covenants, and its key financial ratios.

During the year ended December 31, 2021, the impacts directly attributable to COVID-19 were negative. Revenues in 2021 decreased by $55,300 from 2020, primarily due to the negative effects of the global semiconductor chip shortage and logistics delays, resulting in the cancellation of time-sensitive projects and a general delay in project implementation times.

As of the date of issuance, the Company continues monitoring the development of its business, in accordance with the government regulations of the different countries where it operates and responding in a timely manner to changes as they arise.

f. Succession in General Management

On January 22, 2021, the Company announced the beginning of its CEO succession process, as Rolando Zubirán Shetler, CEO of the Company, decided to retire. Axtel's Board of Directors appointed Eduardo Escalante Castillo as Acting CEO as of this date, and during the selection process for the new CEO.

g. Prepayment of Senior Notes

On March 3, 2021, the Company prepaid the aggregate principal amount of $1,197,210 (US$60 million) of the 6.375% Senior Notes due in 2024 (the "Notes"), with the objective of strengthening its financial structure and reducing interest expense.

Following this prepayment, the aggregate principal amount of Notes outstanding is US$440 million. The partial prepayment was made with cash funds obtained in the data center transaction carried out in 2020.

Derived from this prepayment, the Company immediately recognized the corresponding transaction costs, related to the Senior Notes mentioned above, in the consolidated statement of income as of that date for $13,899.

h. Credit renewal with Export Development Canada

On May 25, 2021, the Company entered into an agreement with Export Development Canada for the renewal of the bilateral committed revolving loan agreement for up to US $50 million, or its equivalent in pesos, extending its maturity from June 2021 to June 2024. As of December 31, 2021, the drawn amount was US $27 million and Ps. 50 million. For the portion in pesos, the interests are payable monthly at a rate of TIIE 28 days + 1.75%, while for the portion in dollars they are payable monthly at a rate of Libor 1M + 2.00%.

i. Debt prepayment

On September 27, 2021, the Company prepaid $400,560 (US$20 million) of the principal of the loan in US dollars maintained with Export Development Canada maturing in 2024 and interest rate of Libor 1M + 2.00%. After this prepayment, the amount outstanding of the loan in its US dollar portion is US$27 million.

Derived from this prepayment, the Company immediately recognized the unamortized transaction costs in the consolidated statement of income as of that date for $481.

j. Impairment in investment in shares and accounts receivable from Altán Redes S.A.P.I. of C.V. ("Altan")

The Company has a stockholding equivalent to 1.96% in Altán's capital stock as of December 31, 2021, 2020 and 2019. Likewise, Axtel is a supplier of telecommunications and IT services for Altán.

On November 12, 2021, Altán was declared in concurso mercantil (commercial insolvency) and from the day of publication of the judgment in the Official Federal Gazette, Altán has an initial conciliation period of 185 calendar days that may be extended for two more periods of 90 calendar days.

As a result of the foregoing, Management recognized an impairment of $290,114 (See Note 24). As of December 31, 2021, 2020 and 2019, the net balance receivable from Altán amounts $304,429, $131,355 and $106,392, respectively, before considering value added tax ("VAT"). Additionally, the Company has a note receivable from Altán for $20,180.

<u>2020</u>

k. Impacts due to COVID-19

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

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

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

l. Closing of agreement with Equinix

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

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

m. Debt prepayment.

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

3. Summary of significant accounting policies

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

a. Basis of preparation

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

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

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

b. Changes in accounting policies and disclosures

i. New standards and changes adopted by the Company.

In the current year, the Company has applied a series of amendments to IFRS issued by the IASB that are mandatorily effective for an accounting period that begins on or after January 1, 2022. The conclusions related to their adoption are described as follows:

Amendments to IFRS 3, Business Combination – Reference to the Conceptual Framework

The amendments update IFRS 3 so that it refers to the 2018 *Conceptual Framework* instead of the 1989 *Framework*. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21, *Levies*, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

The Company evaluated the amendments to IFRS 3 and determined that the implementation of these amendments had no effects on its financial information.

Amendments to IAS 16, Property, plant and equipment - Proceeds before intended use

The amendments prohibit deducting from the cost of an item of property, plant, and equipment any proceeds from selling items produced before that asset is available for use, for example, proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognizes such sales proceeds and related costs in profit or loss for the period. The Company measures the cost of those items in accordance with IAS 2 *Inventories*.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

The Company evaluated the amendments to IAS 16 and determined that the implementation of these amendments had no effects on its financial information, because it currently does not have product sales before property, plant, and equipment are ready for use.

Amendments to IAS 37– Onerous Contracts - Cost of fulfilling a contract

The amendments specify that the “cost of fulfilling” a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labor or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The Company evaluated the amendments to IAS 37 and determined that the implementation of these amendments had no effect on its financial information, since it does not have onerous contracts.

Annual Improvements to IFRS Accounting Standards 2018–2021 Cycle

The Company has adopted the amendments included in the Annual Improvements to IFRS Accounting Standards 2018-2021 Cycle for the first time in the current year. The Annual Improvements include amendments to four standards, which did not have an impact on the financial information, as they were not of significant applicability:

- Amendments to IFRS 1, *First time adoption of International Financial Reporting Standards*
- Amendments to IFRS 9, *Financial instruments*
- Amendments to IFRS 16, *Leases*
- Amendments to IAS 41, *Agriculture*

ii. New, revised and issued IFRS, but not yet effective

As of the authorization date of these consolidated financial statements, the Company has not applied the following new and revised IFRS, that have been issued but not yet effective.

Amendments to IAS 12, Income Taxes - Deferred tax related to assets and liabilities arising from a single transaction

The amendments introduced a further exception from the initial recognition. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences on initial recognition.

Following the amendments to IAS 12, an entity is required to recognize the related deferred tax assets and liabilities, with the recognition of any deferred tax assets being subject to the recoverability criteria in IAS 12.

The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period an entity recognizes:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all the deductible and taxable temporary differences associated with:
    - Right-of-use assets and lease liabilities
    - Decommissioning, restoration and similar liabilities provisions and the corresponding amounts recognized as part of the cost of the related asset.

The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

The amendments are effective for annual reporting periods beginning on January 1, 2023, with earlier application permitted.

The Company evaluated the amendments to IAS 12, and determined that the implementation of these amendments had no effect on its financial information.

Additionally, the Company has not applied the following new and revised IFRS that have been issued, but are not yet effective, from which it’s not expected to have a material impact on its consolidated financial statements in future periods, considering that they are not of significant applicability:

- Amendments to IFRS 17, *Insurance contracts* (1)
- Amendments to IAS 1 and Practice Statement 2 - Disclosure of accounting policies (1)
- Amendments to IAS 8 - Definition of accounting estimates (1)
- Amendments to IFRS 16 - Lease liability in a sale and leaseback (2)
- Amendments to IAS 1 - Classifying liabilities as current or non-current (2)
- Amendments to IAS 1 - Classification of debt with covenants (2)
- Amendments to IFRS 10 and IAS 28 - Sale or contribution of assets between an investor and its associate or joint venture (3)

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

(2) Effective for annual reporting periods beginning on January 1, 2024

(3) Effective date of the amendments has yet to be set by the IASB

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 stockholders is recorded as non-controlling interest. Subsidiaries are fully consolidated in 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 stockholders.

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, 2022, 2021 and 2020, the main subsidiary companies of Axtel were as follows:

		Stockholding interest (%)			
	Country	**2022**	**2021**	**2020**	**Functional currency**
Axtel, S. A. B. de C. V. (Holding company) (2)	Mexico				Mexican peso
Servicios Axtel, S. A. de C. V. (3)	Mexico	-	-	100	Mexican peso
Alestra Innovacion Digital, S. de R. L. de C. V. (2)	Mexico	100	100	100	Mexican peso
Axes Data, S. A. de C. V. (3)	Mexico	-	-	100	Mexican peso
Contacto IP, S. A. de C. V. (3)	Mexico	-	-	100	Mexican peso
Instalaciones y Contrataciones, S. A. de C. V. (3)	Mexico	-	-	100	Mexican peso
Ingeniería de Soluciones Alestra, S. A. de C. V. (3)	Mexico	-	-	100	Mexican peso
Alestra USA, Inc. (1)	USA	100	100	100	U.S. dollar
S&C Constructores de Sistemas, S. A. de C. V. ("S&C")	Mexico	100	100	100	Mexican peso
Estrategias en Tecnología Corporativa, S. A. de C. V. ("Estratel") (2)	Mexico	100	100	100	Mexican peso
Servicios Alestra TI, S. A. de C. V. (2)	Mexico	100	100	100	Mexican peso
Alestra Procesamiento de Pagos, S. A. de C. V. (2) (3)	Mexico	100	100	100	Mexican Peso
La Nave del Recuerdo, S. A. de C. V. (5)	Mexico	-	-	100	Mexican Peso
Contacto IP FTTH de México, S. A. de C. V. (5)	Mexico	-	-	100	Mexican Peso
Alestra Servicios Móviles, S. A. de C. V. (2)	Mexico	100	100	100	Mexican Peso
Fomento de Educación Tecnológica, S.C. (4)	Mexico	100	100	100	Mexican Peso
Axtel Networks, S. A. de C. V.	Mexico	100	100	100	Mexican Peso
Servicios Axtel Networks, S. A. de C. V. (5)	Mexico	-	-	100	Mexican Peso
AXE Redes e Infraestructura S. A. de C. V.	Mexico	100	100	100	Mexican Peso
Allied Inmuebles, S.A. de C.V. (6)	México	100	-	-	Mexican Peso

(1) Leasing of telecommunications and infrastructure equipment.

(2) Provider of telecommunication services.

(3) At the General Extraordinary Stockholders' Meeting held on December 1, 2021, the stockholders agreed to merge Servicios Axtel, S. A. de C. V., Axes Data, S. A. de C.V., Contacto IP, S. A. de C.V., Instalaciones y Contrataciones, S.A de C. V., and Ingeniería de Soluciones Alestra, S. A. de C. V. (as merged companies) with Alestra Procesamiento de Pagos S.A. de C. V. (as merging company); this merger has no impact on the Company's operations at the consolidated level.

(4) Training and development services

(5) Companies liquidated in 2021.

(6) Real estate administration. Acquired in March 2022.

As of December 31, 2022, 2021 and 2020, 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 stockholders' 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 stockholders 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 accounting purposes for any subsequent retained interest in the associate, joint venture or financial asset. Any amount previously recognized in comprehensive (loss) income in respect of that entity is accounted for as if the Company had directly disposed of the related assets and liabilities. This results in the amounts previously recognized in comprehensive (loss) income being reclassified to income for the year.

iv. Associates

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

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

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

The Company assesses at each reporting date whether there is objective evidence that the investment in the associate is impaired. If so, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes it in "Equity in income of associates recognized using the equity method" in the consolidated statement of 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 amended. 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, 2022, 2021 and 2020, the Company has no investments in associates.

d. Foreign currency translation

i. Functional and presentation currency

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

When there is a change in the functional currency of one of the subsidiaries, according to the IAS 21, *Effects of Changes in Foreign Currency Exchange Rates*, 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 on 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 (loss) income and qualify as cash flow hedges.

The exchange differences in monetary assets classified as financial instruments at fair value with changes through profit or loss are recognized in the consolidated statement of 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 stockholders' 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 are 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**	**2022**	**2021**	**2020**	**2022**	**2021**	**2020**
United States	U.S. dollar	19.36	20.58	19.95	20.06	20.38	21.50

e. Cash and cash equivalents

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

f. Restricted cash

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

g. Financial instruments

Financial assets

The Company classifies and measures its financial assets based on the Company's business model to manage financial assets, and on the characteristics of the contractual cash flows of such assets. This way financial assets can be classified at amortized cost, at fair value through other comprehensive (loss) income, and at fair value through profit or loss. Management determines the classification of its financial assets upon initial recognition. Purchases and sales of financial assets are recognized at settlement date.

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

Classes of financial assets

i. Financial assets at amortized cost

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

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

Financial assets at fair value through other comprehensive (loss) income are those whose business model is based in obtaining contractual cash flows and sell the financial assets; and the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the amount of outstanding principal. As of December 31, 2022, 2021 and 2020, the Company does not have financial assets to be measured at fair value through other comprehensive (loss) income.

iii. Financial assets at fair value through profit or loss

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

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

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

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

As of December 31, 2022, 2021 and 2020, the Company has not made any of the irrevocable designations described above.

Impairment of financial assets

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

a) Trade accounts receivables

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

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

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

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

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

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

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 at the presentation date, 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.

Trade 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 there is a legally enforceable right to offset the recognized amounts, and there is an intention to settle them on a net basis or to realize the asset and settle 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 hedging of market risk, are recognized in the consolidated statement of financial position as assets and/or liabilities at fair value and subsequently measured 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 will 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, 2022, 2021 and 2020, 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 stockholders' equity. The effective portion is temporarily recorded in comprehensive (loss) income, within stockholders' equity and is reclassified to profit or loss when the hedged position is affected; the ineffective portion is immediately recorded in profit or loss.

Suspension of hedge accounting

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

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

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

i. Inventories

Inventories are shown at the lesser of its cost and net realization value. The cost is determined using the weighted average cost method. The cost of inventories corresponding to materials and consumables, includes equipment installation costs, other direct costs and indirect expenses. Excludes borrowing costs. The net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

j. Prepayments

Prepayments mainly comprise insurance and prepayments to service providers. The amounts are recorded on the basis of contractual values and are recorded monthly in the consolidated statement of 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. Costs include 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.

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 the assets classes indicated below:

	Years
Buildings	40 – 60
Computers	3 – 5
Vehicles	4
Office equipment	10
Telecommunications network	3 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 Company as lessee

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

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

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

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

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

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

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

The Company as lessor

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

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

m. Intangible assets

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

Intangible assets are classified as follows:

i. *Finite useful life*

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

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

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

a. Trademarks

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

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

b. Licenses

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

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

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

ii. Indefinite useful life

These intangible assets are not amortized and are subject to annual impairment assessment. As of December 31, 2022, 2021 and 2020, 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 related 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 foreseeable future.

Deferred tax assets and liabilities are offset when a legal right exists and when 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. As of December 2022, 2021, and 2020, the Company does not have plan assets. The defined benefit obligation is calculated annually by independent third parties using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using discount rates in conformity with IAS 19, *Employee Benefits,* that are denominated in the currency in which the benefits will be paid, and have maturities that approximate the terms of the pension liability.

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

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

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

ii. Post-employment medical benefits

The Company provides medical benefits to retired employees after termination of employment. Elegibility for these benefits usually depends on the employee having worked up to the retirement age and having completed a minimum number 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 the Company terminates the employment contract before the normal retirement date or when the employee accepts voluntary severance in exchange for these benefits. The Company recognizes 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. Benefits that will be paid in the long term are discounted at their present value.

As of December 31, 2022, 2021 and 2020, the Company recognized a termination expense in the consolidated statement of income for $24,600, $39,407 and $171,893, respectively.

iv. Short-term benefits

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

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

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

r. Provisions

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

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

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

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 include 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. Treasury shares

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

u. Capital stock

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

v. ***Comprehensive income (loss)***

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

w. ***Segment reporting***

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

x. ***Revenue recognition***

Revenues comprise the fair value of the consideration received or for the sale of goods and services in the ordinary course of the transactions, and are presented in the consolidated statement of 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 for the purpose of accommodating goods 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 the government and business portfolios, 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 stockholders to receive this payment have been established (when it is probable that the economic benefits will flow to the Company and that the revenue can be reliably measured).

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

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

y. ***Advances from customers***

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

z. ***Earnings per share***

Earnings per share are calculated by dividing the profit attributable to the stockholders by the weighted average number of common shares outstanding during the year.

4. Financial instruments and financial risk management

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

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

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

Alfa (holding company) has a Risk Management Committee (RMC), comprised of the Board's Chairman, the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") of Alfa and the Risk Management Officer ("RMO") of Alfa acting as technical secretary. The RMC reviews derivative transactions proposed by the subsidiaries of Alfa, including Axtel, in which a potential loss analysis surpasses US$1 million.

This committee supports both the CEO and the Board's Chairman of the Company. All new derivative transactions, which the Company proposes to enter into, as well as the renewal or cancellation of derivative arrangements, must be approved by both the Company and Alfa's CEO, in accordance to the following schedule of authorizations:

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

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

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 stockholders 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 stockholders, return equity to stockholders, issue new shares or sell assets to reduce debt.

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

The financial ratio of total liabilities / total equity is 5.44, 5.96 and 5.78 times as of December 31, 2022, 2021 and 2020, 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,		
	2022	**2021**	**2020**
Cash and cash equivalents	$ 1,542,831	$ 1,613,697	$ 3,123,955
Restricted cash	-	-	261,827
Financial assets at amortized cost:			
Trade and other accounts receivable	1,854,465	2,420,149	2,844,473
Financial assets measured at fair value through profit or loss:			
Derivative financial instruments	4,696	-	-
	$ 3,401,992	$ 4,033,846	$ 6,230,255
Financial liabilities at amortized cost:			
Current debt	$ 375,506	$ 252,072	$ 1,609,301
Lease liability	320,958	484,254	627,024
Trade payables, related parties, and sundry creditors	1,844,234	2,138,783	2,376,195
Non-current debt	11,184,614	12,607,365	13,034,985
Financial liabilities measured at fair value through profit or loss:			
Derivative financial instruments (1)	-	33,575	207,197
	$13,725,312	$15,516,049	$17,854,702

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

Fair value of financial assets and liabilities valued at amortized cost

The amount of cash and cash equivalents, trade and other accounts receivable, other current assets, trade payables and other accounts payable, current debt, current provisions and other current liabilities approximate their fair value since their maturity date is less than 12 months. The net carrying amount of these accounts represents the expected cash flow at December 31, 2022, 2021 and 2020.

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

	As of December 31, 2022		As of December 31, 2021		As of December 31, 2020	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities:						
Debt (*)	$ 11,508,447	$ 10,226,268	$12,842,055	$13,152,634	$ 14,655,875	$14,999,100

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

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, 2022, 2021 and 2020.

	USD (converted to thousands of MXP)		
	2022	**2021**	**2020**
Financial assets	$ 1,160,810	$ 714,540	$ 3,075,425
Financial liabilities	(9,519,008)	(10,971,150)	(12,217,941)
Foreign exchange monetary position	$(8,358,198)	$(10,256,610)	$(9,142,516)

During 2022, 2021 and 2020, 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 $835,820 on the consolidated statement of income and consequently on the stockholders' equity.

Financial instruments and derivative financial instruments

Financial instruments

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.

Derivative financial instruments

As of December 31, 2022, the Company does not have interest rate swaps due to their natural maturity. As of December 31, 2021 and 2020, the Company maintained the following derivative financial instrument:

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

Characteristics	**2021**	**2020**
Currency	MXN	MXN
Notional	$2,880,000	$3,380,000
Coupon	TIIE28	TIIE28
Coupon	8.355%	8.355%
Maturity	December 15, 2022	December 15, 2022
Swap book value	$(33,575)	$(207,198)
Change in the fair value of the swap to measure ineffectiveness	$(33,520)	$(205,774)
Reclassification from OCI to income	$3,989	$5,784
Balance recognized in OCI net of reclassifications	$29,586	$201,414
Ineffectiveness recognized in income	-	-
Change in the fair value of the hedged item to measure ineffectiveness	$40,712	$210,604
Change in the fair value DFI vs comparative year	$173,623	$(70,021)

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, 2021 and 2020, 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 119% and 96.7%, in 2021 and 2020, respectively, confirming that there is an economic relationship between the hedging instruments and the hedged instrument. The method used by the Company is to offset cash flows using a hypothetical derivative, which consists of comparing the changes in the fair value of the hedging instrument with the changes in the fair value of the hypothetical derivative that would result in a perfect coverage of the covered item.

According to the amount described and the way in which the derivative cash flows are exchanged, for this hedging strategy, the average hedge ratio is 51% and 73%, in 2021 and 2020, respectively. In this hedge relationship, the source of ineffectiveness is mainly credit risk.

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

As of December 31, 2022, the Company maintains forwards (USD/MXN) to cover capital expenditures (Capex) that are made in a currency other than its functional currency. Likewise, the Company maintains two forwards (USD/MXN) to cover the interest payment for coupons on the Senior Notes bond due in 2024. Therefore, a highly probable forecast transaction related to disbursements has been documented as a hedged item in dollars for Capex and the bond coupon payment.

For accounting purposes, the Company has designated these forwards as cash flow hedge relationships to hedge the items mentioned above, and formally documented these relationships, establishing the objectives, the management strategy to hedge the risk, the identification of the hedging instruments, the hedged items, the nature of the risk to be hedged and the effectiveness evaluation methodology.

The conditions of the derivative financial instruments and the considerations of their valuation as hedging instruments are mentioned below:

Forwards	Capex USD/MXN	Bond Interest USD/MXN
Characteristics	**2022**	**2022**
Currency	USD	USD
Notional (thousands)	$77,400	$12,900
Strike (average)	19.8950	19.7180
Maturity	Until Aug-24-2023	May-11-2023
Book value	$1,532	$3,163
Change in the fair value to measure ineffectiveness	$(9,522)	$1,318
Reclassification from OCI to income	-	$(409)
Balance recognized in OCI net of reclassifications	$1,533	$3,572
Change in the fair value of the hedged item to measure ineffectiveness	$13,111	$1,557

As of December 31, 2022, the Company maintains USD/MXN forwards that were contracted with the objective of protecting itself against an exchange rate increase. The Company determined that the hedging relationships are highly effective according to the characteristics and modeling of both hedged items, resulting in 98% effectiveness for Capex coverage and 98% for interest coverage, respectively.

In accordance with the reference amounts described and the way in which the flows of the derivatives are exchanged, the average coverage ratio for the USD/MXN exchange rate is 100% and 100% for the Capex and interest at the end of 2022. If necessary, a rebalancing will be carried out to maintain this relationship for the strategy. As of December 31, 2022, there was no ineffectiveness recognized in results.

For the year ended December 31, 2020, a gain of $63,990 was recognized in the consolidated statement of income for the settlement of an accounting hedge forward used to hedge the exposure to the USD/MXN exchange rate variability.

(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, 2022, 69.6% of Axtel's total debt generates fixed interest rates while the remaining 30.4% generates variable 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, 2022, 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 $35,989 and $(35,989), respectively.

Credit risk

Credit risk represents the risk of financial loss for the Company, if a customer or counterpart of a financial instrument 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, 2022, 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 7%, 18% and 7% of the Company's total accounts receivable as of December 31, 2022, 2021 and 2020, respectively. Additionally, revenues associated to Company A for the years ended December 31, 2022, 2021 and 2020 was 3%, 4% and 3%, respectively.

Company B accounts for 2%, 0% and 0% of the Company's total accounts receivable as of December 31, 2022, 2021 and 2020, respectively. Additionally, revenues related to Company B for the years ended December 31, 2022, 2021 and 2020 was 0.3%, 0.4% and 0.3%, respectively.

As of December 31, 2022, 2021 and 2020, the allowance for impairment totaled $614,108, $304,637, and $373,335 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, 2022			
Current debt	$ 375,506	$ -	$ -
Trade payable, related parties and creditors	1,844,234	-	-
Non-current debt	-	10,332,507	904,888
Lease liability	220,968	89,980	10,010
Non-accrued interest payable	903,990	1,551,225	49,999
December 31, 2021			
Current debt	$ 252,072	$ -	$ -
Trade payable, related parties and creditors	2,138,783	-	-
Derivative financial instruments	33,575	-	-
Non-current debt	-	10,890,119	1,799,886
Lease liability	264,264	203,749	16,241
Non-accrued interest payable	848,246	2,159,402	43,199
December 31, 2020			
Current debt	$1,609,301	$ -	$ -
Trade payable, related parties and creditors	2,376,195	-	-
Derivative financial instruments	154,077	53,120	-
Non-current debt	-	10,858,023	2,294,360
Lease liability	294,749	325,276	6,999
Non-accrued interest payable	867,657	2,700,810	309,430

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

As of December 31, 2022, the Company has short-term uncommitted, unused lines of credit for approximately $496,808 (US$26 million). Additionally, as of December 31, 2022, Axtel has committed credit lines for US$71 million, of which $572,761 (US$30 million) has been used and $795,315 (US$41 million) is available.

Fair value hierarchy

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

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

The following table presents the Company's assets and liabilities that are measured at fair value as of December 31, 2022, 2021 and 2020:

	As of December 31, 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets (liabilities):				
Interest rate swap	$ -	$ 4,696	$ -	$ 4,696
	$ -	$ 4,696	$ -	$ 4,696

	As of December 31, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets (liabilities):				
Interest rate swap	$ -	$ (33,575)	$ -	$ (33,575)
	$ -	$ (33,575)	$ -	$ (33,575)

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

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

The specific valuation techniques used to value financial instruments include:

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

5. Critical accounting estimates and significant judgments

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

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

a. Impairment and useful lives of long-lived assets

The Company reviews depreciable and amortizable assets on an annual basis for signs of impairment, or when certain events or circumstances indicate that the book value may not be recovered during the remaining useful life of the assets. For intangible assets with an indefinite useful life, the Company performs impairment tests annually and at any time that there is an indication that the asset may be impaired.

To test for impairment, the Company uses projected cash flows, which consider the estimates of future transactions, including estimates of revenues, costs, operating expenses, capital expenditures and debt service. In accordance with IFRS, discounted future cash flows associated with an asset or CGU are compared to the book value of the asset or CGU being tested to determine if impairment exists whenever the aforementioned discounted future cash flows are less than its book value. In such case, the carrying amount of the asset or group of assets is reduced to its value in use, unless its fair value is higher.

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

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

The Company conducts annual tests to determine whether goodwill and intangibles assets with indefinite useful lives have suffered any impairment (Note 12). For impairment testing, goodwill and intangibles assets with indefinite lives is allocated with those cash generating units (CGUs) of which the Company has considered that economic and operational synergies of the business combinations are generated. The recoverable amounts of the groups of CGUs were determined based on the calculations of their value in use, which require the use of estimates, within which the most significant are the following:

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

c. Recoverability of deferred tax assets

The Company has applicable tax-loss carryforwards, which can be used in the following years until maturity expires (See Note 20). Based on the projections of income and taxable income that the Company will generate in the following years through a structured and robust business plan, management has considered that current tax losses will be used before they expire and, therefore, it was considered appropriate to recognize a deferred tax asset for such losses.

d. Commitments and contingencies

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

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

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

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

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

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

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

g. Estimation of the lease term

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

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

6. Cash and cash equivalents

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

	2022	2021	2020
Cash on hand and in banks	$1,152,126	$1,305,022	$1,747,864
Short-term investments	390,705	308,675	1,376,091
Total cash and cash equivalents	$1,542,831	$1,613,697	$3,123,955

7. Restricted cash

As of December 31, 2022, 2021 and 2020, the balance of restricted cash was $0, $0, and $261,827 (US$13 million), respectively.

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

8. Trade and other accounts receivable, net

Trade and other accounts receivable are comprised as follows:

	2022	2021	2020
Current:			
Trade accounts receivable	$1,808,514	$2,000,084	$2,168,349
Allowance for impairment of accounts receivable (1)	(614,108)	(304,637)	(373,335)
Trade accounts receivable, net	1,194,406	1,695,447	1,795,014
Recoverable taxes	74,260	72,605	56,775
Notes and other accounts receivable	644,901	689,442	1,041,257
Related parties	15,158	35,260	8,202
	$1,928,725	$2,492,754	$2,901,248

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

	2022	2021	2020
Initial balance	$ 304,637	$373,335	$1,208,739
Write-off of doubtful accounts (2)	346,789	(42,555)	48,891
Allowance for doubtful accounts for the year	(37,318)	(26,143)	(884,295)
Ending balance	$ 614,108	$304,637	$ 373,335

(2) The net variance in the allowance for doubtful accounts in 2022, 2021 and 2020 are mainly due to the increase in the probability of default assigned to certain customers with respect to the beginning of the year. In addition, they consider the reversals of impairment that arise when an account receivable, which had previously been impaired, becomes recoverable because the customer settled the outstanding balance.

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

As of December 31, 2022

Clients or group of clients	Probability of default range	Severity of loss
Carriers	10.0% - 100.0%	47.10%
Business	7.5% - 100.0%	71.80%
Government	10.0% - 100.0%	29.20%

As of December 31, 2021

Clients or group of clients	Probability of default range	Severity of loss
Carriers	10.0% - 100.0%	67.60%
Business	7.5% - 100.0%	57.70%
Government	10.0% - 100.0%	79.60%

As of December 31, 2020

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

9. Inventories

As of December 31, 2022, 2021 and 2020, inventories of $169,838, $85,442, and $78,720, respectively, were composed by materials and consumables.

The cost of inventories recognized as an expense and included in the cost of sales amounted to $136,060, $139,778, and $142,418 for 2022, 2021 and 2020, respectively. As of December 31, 2022, 2021 and 2020, there were no inventories pledged as collateral.

10. Property, plant and equipment, net

	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, 2020									
Net opening balance	$ 272,450	$ 11,110,075	$ 72,584	$ 168,514	$ 4,974	$ 80,718	$461,349	$ 793,327	$12,963,991
Translation effect	-	1,408	-	-	-	-	-	-	1,408
Additions	-	14,943	32	16,492	-	-	-	1,473,919	1,505,386
Transfers	(26,703)	1,315,594	7,302	10,019	-	24,033	-	(1,332,292)	(2,047)
Disposals, net	-	(117,272)	(151)	(183)	(70)	-	-	(33,760)	(151,436)
Depreciation charge recognized in the year	(12,853)	(2,599,835)	(14,753)	(73,169)	(4,092)	(34,950)	-	-	(2,739,652)
Ending balance as of December 31, 2020	$ 232,894	$ 9,724,913	$ 65,014	$ 121,673	$ 812	$ 69,801	$461,349	$ 901,194	$11,577,650
As of December 31, 2020									
Cost	$ 597,111	$ 44,180,820	$415,120	$3,535,059	$112,678	$ 587,269	$461,349	$ 901,194	$50,790,600
Accumulated depreciation	(364,217)	(34,455,907)	(350,106)	(3,413,386)	(111,866)	(517,468)	-	-	(39,212,950)
Net carrying amount as of December 31, 2020	$ 232,894	$ 9,724,913	$ 65,014	$ 121,673	$ 812	$ 69,801	$461,349	$ 901,194	$11,577,650
For the year ended December 31, 2021									
Net opening balance	$ 232,894	$ 9,724,913	$ 65,014	$ 121,673	$ 812	$ 69,801	$461,349	$ 901,194	$11,577,650
Translation effect	-	505	-	-	-	-	-	-	505
Additions	-	5,022	-	833	-	-	-	1,245,026	1,250,881
Transfers	-	1,499,416	1,096	19,899	-	11,287	-	(1,531,698)	-
Disposals, net	-	(15,481)	(37)	(577)	(381)	-	-	(22,807)	(39,283)
Depreciation charges recognized in the year	(12,440)	(2,529,883)	(12,496)	(58,046)	(431)	(43,509)	-	-	(2,656,805)
Ending balance as of December 31, 2021	$ 220,454	$ 8,684,492	$ 53,577	$83,782	$ -	$ 37,579	$461,349	$ 591,715	$10,132,948
As of December 31, 2021									
Cost	$ 597,111	$ 41,980,339	$377,404	$3,376,968	$ 99,284	$ 510,435	$461,349	$ 591,715	$47,994,605
Accumulated depreciation	(376,657)	(33,295,847)	(323,827)	(3,293,186)	(99,284)	(472,856)	-	-	(37,861,657)
Net carrying amount as of December 31, 2021	$ 220,454	$ 8,684,492	$ 53,577	$ 83,782	$ -	$ 37,579	$461,349	$ 591,715	$10,132,948
For the year ended December 31, 2022									
Net opening balance	$ 220,454	$ 8,684,492	$ 53,577	$ 83,782	$ -	$ 37,579	$461,349	$591,715	$10,132,948
Translation effect	-	(868)	-	-	-	-	-	-	(868)
Additions	45,420	10,649	12	323	-	1,705	2,117	1,263,278	1,323,504
Transfers	488	1,227,126	227	4,814	80	2,049	-	(1,234,784)	-
Disposals, net	-	(17,237)	(240)	(99)	-	-	-	(8,015)	(25,591)
Depreciation charges recognized in the year	(12,499)	(2,297,935)	(26,686)	(34,793)	(2)	(14,011)	-	-	(2,385,926)
Ending balance as of December 31, 2022	$ 253,863	$ 7,606,227	$ 26,890	$ 54,027	$ 78	$ 27,322	$463,466	$ 612,194	$ 9,044,067
As of December 31, 2022									
Cost	$ 643,501	$ 42,418,147	$328,455	$3,346,644	$ 95,185	$ 504,570	$463,466	$ 612,194	$48,412,162
Accumulated depreciation	(389,638)	(34,811,920)	(301,565)	(3,292,617)	(95,107)	(477,248)	-	-	(39,368,095)
Net carrying amount as of December 31, 2022	$ 253,863	$ 7,606,227	$ 26,890	$ 54,027	$ 78	$ 27,322	$463,466	$ 612,194	$ 9,044,067

Of the total depreciation expense, $2,324,046, $2,596,292 and $2,667,981 were charged to cost of sales, $61,880, $60,513 and $71,670 to selling and administrative expenses for 2022, 2021 and 2020, 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, 2022, 2021 and 2020, the Company capitalized $11,086, $18,079 and $12,776, respectively, of borrowing costs related to qualifying assets of $368,205, $422,817 and $583,175, respectively. These amounts were capitalized based on an interest rate of 7.10%, 7.11% and 7.59%, respectively.

11. Right of use asset, net

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

a) The right of use recognized in the consolidated statement of financial position as of December 31, 2022, 2021 and 2020, is as follows:

	Land & buildings	Telecommunications equipment and networks	Furniture and office equipment	Computer equipment	Vehicles	Total
Net book value						
Balances as of December 31, 2020	$ 366,510	$ 154,500	$ 549	$ 28,668	$ 42,644	$ 592,871
Balances as of December 31, 2021	$ 305,030	$ 126,144	$ 470	$ 33,745	$ 33,133	$ 498,522
Balances as of December 31, 2022	$ 231,306	$ 101,460	$ 356	$ 12,227	$ 19,362	$ 364,711
Accumulated depreciation 2020	$ (218,706)	$ (32,355)	$ (79)	$ (27,248)	$ (9,586)	$ (287,974)
Accumulated depreciation 2021	$ (165,857)	$ (28,334)	$ (79)	$ (26,116)	$ (14,242)	$ (234,628)
Accumulated depreciation 2022	$ (155,427)	$ (24,683)	$ (79)	$ (22,311)	$ (13,336)	$ (215,836)

Additions to the net book value of the right of use asset as of December 31, 2022, 2021 and 2020 amounted to $82,973, $240,512 and $239,952, respectively.

b) Expenses recognized in the consolidated statement of income for the year ended December 31, 2022, 2021 and 2020, are as follows.

	2022	2021	2020
Rent expenses from short-term leases	$ 948,345	$ 942,627	$ 893,842

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

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

12. Goodwill and intangible assets, net

		Definite life				Indefinite life		
	Concessions	Trademarks	Relationships with customers	Non-compete agreements	Software and licenses	Other	Goodwill	Total
As of January 1, 2020	$ 28,741	$ 11,332	$ 111,411	$ 10,361	$ 308,504	$ 162,373	$ 419,536	$1,052,258
Additions	422,848	-	-	-	178,750	69,710	-	671,308
Disposals	(2,341)	-	-	-	(9,229)	12	-	(11,558)
Transfers	-	-	-	-	-	2,035	-	2,035
Impairment recognized in the year	-	-	-	-	-	-	(96,754)	(96,754)
Amortization charges recognized in the year	(11,757)	(7,999)	(16,398)	(7,314)	(207,075)	(106,050)	-	(356,593)
Ending balance as of December 31, 2020	$ 437,491	$ 3,333	$ 95,013	$ 3,047	$ 270,950	$ 128,080	$ 322,782	$1,260,696
Cost	$ 468,838	$ 79,573	$ 190,739	$ 36,569	$1,602,164	$ 586,695	$ 322,782	$ 3,287,360
Accumulated amortization	(31,347)	(76,240)	(95,726)	(33,522)	(1,331,214)	(458,615)	-	(2,026,664)
Ending balance as of December 31, 2020	$ 437,491	$ 3,333	$ 95,013	$ 3,047	$ 270,950	$ 128,080	$ 322,782	$ 1,260,696
As of January 1, 2021	$ 437,491	$ 3,333	$ 95,013	$ 3,047	$ 270,950	$ 128,080	$ 322,782	$ 1,260,696
Additions	-	-	-	-	114,046	213,393	-	327,439
Disposals	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-
Impairment recognized in the year	-	-	-	-	-	-	-	-
Amortization charges recognized in the year	(22,507)	(3,333)	(16,398)	(3,047)	(177,388)	(65,258)	-	(287,931)
Ending balance as of December 31, 2021	$ 414,984	$ -	$ 78,615	$ -	$ 207,608	$ 276,215	$ 322,782	$ 1,300,204
Cost	$ 468,838	$ 3,594	$ 190,739	$ -	$1,519,358	$ 566,528	$ 322,782	$ 3,071,839
Accumulated amortization	(53,854)	(3,594)	(112,124)	-	(1,311,750)	(290,313)	-	(1,771,635)
Ending balance as of December 31, 2021	$ 414,984	$ -	$ 78,615	$ -	$ 207,608	$276,215	$ 322,782	$ 1,300,204
As of January 1, 2022	$ 414,984	$ -	$ 78,615	$ -	$ 207,608	$ 276,215	$ 322,782	$1,300,204
Additions	-	-	-	-	57,316	10,721	-	68,037
Disposals	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-
Impairment recognized in the year	-	-	-	-	-	-	-	-
Amortization charges recognized in the year	(22,509)	-	(16,397)	-	(123,686)	(41,909)	-	(204,501)
Ending balance as of December 31, 2022	$ 392,475	$ -	62,218	$ -	$ 141,238	$ 245,027	$ 322,782	$1,163,740
Cost	$ 468,838	3,594	190,739	-	1,576,674	577,249	322,782	3,139,876
Accumulated amortization	(76,363)	(3,594)	(128,521)	-	(1,435,436)	(332,222)	-	(1,976,136)
Ending balance as of December 31, 2022	$ 392,475	$ -	$ 62,218	$ -	$ 141,238	$245,027	$ 322,782	$1,163,740

The intangible assets with indefinite life of the Company include only goodwill. The rest of the intangible assets are of definite life.

Of the total amortization expense, $22,508, $22,508 and $11,757 were charged to cost of sales and $181,993, $265,423 and $344,836 to selling and administrative expenses in 2022, 2021 and 2020, respectively.

Company concessions

Axtel, as a group, has 3 (three) single concessions for commercial use granted by the Federal Telecommunications Institute ("IFT" for its acronym in Spanish), one in favor of Axtel S.A.B. de C.V., another one given to Alestra Servicios Móviles, S.A. de C.V., and another one in favor of Alestra Innovación Digital, S de R.L de C.V, under which the Company is duly authorized to provide any telecommunications and/or broadcasting service, including, but not limited to the services of local fixed and mobile telephony; national and international long distance, SMS (short message service), purchase or rental of network capacity for the generation, transmission or reception of data, signals, writings, images, voice, sounds and other information of any nature; rental of digital circuits, etc.

In addition, Axtel S.A.B. de C.V. has concessions to use, take advantage of, and exploit frequency bands for specific use in the frequencies of 7 GHz. (1 concession), 10 GHz. (15 concessions), 15 GHz. (4 concessions), 23 GHz. (6 concessions) and 38 GHz. (5 concessions).

The concession of Axtel S.A.B de C.V. is currently used to provide fixed services to the business and government market. Alestra Servicios Móviles uses its unique concession to provide mobile services in both the MVNE and MVNO modalities. The Company has plans to use the unique Alestra Innovación Digital concession to provide services to the government market.

It is worth mentioning that in the year 2021, the IFT authorized the transition to a Single Concession Contract of a Public Telecommunications Network Concession of Alestra Innovation Digital, a situation that terminates the restructuring strategy of Axtel Concessions as a group that began in 2019.

The Company's main concessions are as follows:

Service	**Use**	**Period**	**Expiration**
Single concession for commercial use of Axtel [1]	Commercial	30 years	2046
Single concession for commercial use of Alestra Servicios Moviles[2]	Commercial	30 years	2048
Single concession for commercial use of Alestra Digital Innovation [3]	Commercial	30 years	2030
Various radio spectrum frequencies for the provision of point-to-point and point-to-multipoint microwave links[4]	Commercial	20 years	2038

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

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

(3) Single concession that was transitioned from the Public Telecommunications Network Concession regime, valid for 30 years from the term initially granted, may be renewable for up to equal terms, as long as it is requested in the year prior to the last fifth of the term of the concession and is also in compliance with all its obligations under the concession, as well as those contained in the legal, regulatory and administrative provisions.

(4) The radio spectrum concessions are to operate services in the following Radio Frequency Bands: 7 GHz, 10 GHz, 15 GHz, 23 GHz and 38 GHz.

Impairment testing of goodwill

At the date of issuance of the consolidated financial statements there was no impairment.

The following describes the discount rates and long-term growth rates used for the years ended December 31, 2022, 2021 and 2020:

	2022	2021	2020
Discount rate, after tax	12.1%	11.8%	10.2%
Long-term growth rate	3.0%	5.3%	3.2%

13. Other non-current assets

	2022	2021	2020
Investments of shares	$ 825	$ 1,702	$291,816
Long-term notes receivable	-	20,181	-
Prepaid connection leases	10,815	3,961	10,468
Guarantee deposits	49,665	51,113	52,810
Prepaid maintenance	274,276	188,180	235,289
Other	100,024	94,853	62,241
Total other non-current assets	$435,605	$359,990	$652,624

14. Trade and other accounts payable

Trade and other accounts payable are analyzed as follows:

	2022	2021	2020
Current:			
Trade accounts payable	$1,833,222	$2,138,117	$2,375,715
Related parties	11,012	666	480
Value added tax and other federal and local taxes payable	498,962	430,546	1,136,511
Accrued expenses payable	115,544	161,126	244,414
Other	123,833	113,712	94,173
	$2,582,573	$2,844,167	$3,851,293

15. Provisions

	Litigation	Restructuring(1)	Total
As of January 1, 2020	$ 28,490	$ 191,700	$ 220,190
Additions	2,292	-	2,292
Payments	(12,365)	(191,700)	(204,065)
As of December 31, 2020	$ 18,417	$ -	$ 18,417
Additions	11,388	-	11,388
Payments	(321)	-	(321)
As of December 31, 2021	$ 29,484	$ -	$ 29,484
Additions	$ -	$ -	$ -
Payments	(4,168)	-	(4,168)
As of December 31, 2022	$ 25,316	$ -	$ 25,316

(1) Provisions due to restructuring include indemnities due to personnel changes.

Provisions as of December 31, 2022, 2021 and 2020 are short-term.

16. Deferred income

Deferred income movements during the year are shown as follows:

	2022	2021	2020
Beginning balance	$ 86,052	$116,054	$153,229
Increases	313,079	413,276	491,935
Recognized income of the year	(353,923)	(443,278)	(529,110)
Ending balance	$ 45,208	$ 86,052	$116,054

17. Debt

	2022	2021	2020
Banco Nacional de Comercio Exterior, S.N.C (Bancomext)	$3,026,182	$ 3,154,745	$ 3,243,750
Syndicated loan	-	-	-
Senior Notes	7,787,641	9,056,740	9,974,350
Export Development Canada (EDC)	572,761	605,755	987,590
MUFG Bank México, S.A. (MUFG)	-	-	200,000
Banco Mercantil del Norte, S.A. (Banorte)	-	-	110,000
Other loans	121,863	24,815	140,185
Accrued interest payable	104,453	100,021	105,809
Issuance costs	(52,780)	(82,639)	(117,398)
Total debt	11,560,120	12,859,437	14,644,286
Current portion of debt	(375,506)	(252,072)	(1,609,301)
Non-current debt	$11,184,614	$12,607,365	$13,034,985

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	2022	2021	2020
Bancomext	Mexico	MXP	TIIE + 2.10%	10.76%	30/08/2028	Quarterly	$ 3,026,182	$ 3,154,745	$ 3,243,750
Senior Notes	International	USD	6.375%	6.72%	14/11/2024	Semi-annually	7,787,641	9,056,740	9,974,350
EDC	Canada	MXP	TIIE + 1.75%	10.97%	24/06/2024	Monthly	50,000	50,000	50,000
EDC	Canada	USD	Libor + 2.00%	4.39%	24/06/2024	Monthly	522,761	555,755	937,590
MUFG	Mexico	MXP	TIIE + 1.70%	6.18%	19/03/2021	Monthly	-	-	200,000
Banorte	Mexico	MXP	TIIE + 1.75%	6.22%	10/02/2021	Monthly	-	-	110,000
Other loans	Mexico	MXP	Various	Various	Various	Quarterly	121,863	24,815	140,185
Total bank loans							11,508,447	12,842,055	14,655,875
Debt issuance costs							(52,780)	(82,639)	(117,398)
Accrued interest payable							104,453	100,021	105,809
Total debt							$11,560,120	$12,859,437	$14,644,286

As of December 31, 2022, annual maturities of non-current debt are as follows:

	2024	2025	2026	2027 onwards	Total(1)
Bank loans	$800,219	$336,242	$494,474	$1,799,886	$3,430,821
Senior Notes	7,787,641	-	-	-	7,787,641
Other loans	18,932	-	-	-	18,932
	$8,606,792	$336,242	$494,474	$1,799,886	$11,237,394

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

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

Fair value of non-current debt is disclosed in Note 4. Estimated fair values as of December 31, 2022, 2021 and 2020 were determined using rates that reflect a similar credit risk depending on the currency, maturity period and country where the debt was acquired, regarding financial liabilities with financial institutions, finance leases, other liabilities and related parties. In the case of Senior Notes placed in international markets, the Company uses the market price of such Notes at the date of the consolidated financial statements. Measurement at fair value of such financial liabilities valued at amortized cost is deemed within Level 1 and 2 of the fair value hierarchy.

Covenants:

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

Financial ratios to be fulfilled include the following:

a. Interest coverage ratio: which is defined as adjusted EBITDA (See Note 29) divided by financial expenses for the last four quarters of the period analyzed. As of December 31, 2022, this ratio cannot be less than 2.25 times.

b. Net 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 29) for the last 12 months. As of December 31, 2022, this ratio cannot be greater than 4.25 times.

   As of December 31, 2022, the leverage ratio is of 3.5 times for the Senior Notes and and bank loan.

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, 2022, and as of the date of issuance of these consolidated financial statements, the Company and its subsidiaries complied satisfactorily with the covenants established in the credit agreements.

18. Lease liability

	As of December 31,		
	2022	**2021**	**2020**
Current portion:			
USD:	$ 51,359	$ 59,061	$ 77,720
MXN:	169,609	205,203	217,029
Current lease liability	$220,968	$ 264,264	$ 294,749
USD:	$ 79,136	$ 134,447	$ 131,101
MXN:	241,822	349,807	495,923
	320,958	484,254	627,024
Less; Current portion of lease liability	220,968	264,264	294,749
Non-current lease liability	$ 99,990	$ 219,990	$ 332,275

	2022	2021	2020
Beginning balance	$ 484,254	$ 627,024	$ 866,098
New contracts	82,973	240,512	239,952
Write-offs	(1,284)	(107,991)	(22,159)
Interest expense from lease liability	37,695	54,702	68,157
Lease payments	(276,453)	(332,412)	(545,855)
Exchange gain (loss)	(6,227)	2,419	20,831
Ending balance	$ 320,958	$ 484,254	$ 627,024

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

	As of December 31,		
	2022	2021	2020
Less than 1 year	$223,962	$ 273,083	$ 308,942
Over 1 year and less than 5 years	94,631	207,176	334,577
Over 5 years	6,016	16,241	6,999
Total	$324,609	$ 496,500	$ 650,518

19. Employee benefits

Defined contributions plans:

The Company has a defined contribution plan. According to the structure of this plan, the reduction on labor liabilities is reflected progressively. The Company has established irrevocable trust funds for payment of the defined contribution plan. Due to the changes made in the 2014 tax reform, the Company interrupted the deposits to the trust; however, it has maintained this benefit and recognized labor obligations of $421,430, $350,164 and $290,459 as of December 31, 2022, 2021 and 2020, 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:

	2022	2021	2020
Obligations in the consolidated statement of financial position:			
Pension benefits	$462,485	$412,105	$444,764
Post-employment medical benefits	7,340	4,231	7,624
Defined contribution additional liability	421,430	350,164	290,459
Liability recognized in the consolidated statement of financial position	$891,255	$766,500	$742,847
Charge in the consolidated statement of income for:			
Pension benefits	$ 59,284	$ 60,357	$ 68,416
Medical benefits to retirement	419	637	603
	$ 59,703	$ 60,994	$ 69,019
Remeasurements for accrued employee benefit obligations recognized in other comprehensive income for the year	$ 4,961	$(85,986)	$ 29,646

Pension and post-employment medical benefits

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

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

	2022	2021	2020
As of January 1	$416,336	$452,388	$413,186
Current service cost	27,532	29,600	40,105
Financial cost	32,171	31,394	28,914
Actuarial remeasurements	4,961	(85,986)	29,646
Past service cost	-	-	8,714
Benefits paid	(3,453)	(3,832)	(12,068)
Reductions	(7,723)	(7,228)	(56,109)
As of December 31	$469,824	$416,336	$452,388

The primary actuarial assumptions were as follows:

	2022	2021	2020
Discount rate	9.25%	7.75%	6.75%
Future wage increase	5.00%	4.50%	4.50%
Medical inflation rate	7.00%	7.00%	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%	($29,131)	$32,909
Medical inflation rate	1%	($7,340)	$5,987

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

20. Income taxes

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

	2022	2021	2020
Current income tax	$ (561)	$ (9,338)	$ (49,602)
Deferred income tax charge (benefits)	48,887	393,265	(364,025)
Prior years' adjustment	(94)	(31,522)	(379,006)
Income tax (expense) benefit	$ 48,232	$352,405	$(792,633)

	2022	2021	2020
(Loss) income before taxes	$ (87,046)	$(1,149,147)	$1,153,888
Statutory rate	30%	30%	30%
Benefit (expense) at statutory rate	26,114	344,744	(346,166)
(Plus) less tax effect on:			
Tax effects of inflation	(248,144)	(76,082)	(118,037)
Non-deductibles	(26,150)	(17,228)	(31,591)
Other differences, net	296,412	100,971	(296,839)
Total income tax benefit (expense) charged to income	$ 48,232	$ 352,405	$(792,633)
Effective rate	(55)%	(31)%	(69)%

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

	2022	2021	2020
Tax loss carryforwards	$1,060,135	$1,118,770	$ 813,140
Allowance for doubtful accounts	410,395	481,081	640,832
Property, plant and equipment	1,458,128	1,093,232	871,738
Provisions and other	18,052	140,288	405,326
Intangible assets and other	11,245	22,739	(190,493)
Deferred tax asset	$2,957,955	$2,856,110	$2,540,543
Property, plant and equipment	$ (126,602)	$ (1,128)	$ (4,401)
Intangible assets and other	(18,347)	(6)	2,947
Tax loss carryforwards	69,389	-	-
Deferred tax liability	$ (75,560)	$ (1,134)	$ (1,454)

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, 2022 for which a tax asset was recognized amount to $3,765,078. The Company reserved tax losses of $627,608 since its recovery is not considered probable.

Tax losses as of December 31, 2022 expire in the following years:

Year of expiration	Amount
2026	$3,001,650
2029 onwards	763,428
	$3,765,078

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

	2022			2021			2020		
	Before taxes	Tax charged/ (credited)	After taxes	Before taxes	Tax charged/ (credited)	After taxes	Before taxes	Tax charged/ (credited)	After taxes
Effect of currency translation	$(1,446)	$ -	$(1,446)	$ 732	$ -	$ 732	$ 1,152	$ -	$ 1,152
Fair value of derivative financial instruments	34,691	(10,407)	24,284	171,827	(51,548)	120,279	(62,399)	18,720	(43,679)
Remeasurements of employee benefits	(4,961)	1,488	(3,473)	85,986	(25,796)	60,190	(29,646)	8,894	(20,752)
	$28,284	$(8,919)	$19,365	$258,545	$(77,344)	$181,201	$(90,893)	$27,614	$(63,279)

21. Stockholders’ equity

At the Ordinary General Stockholders' Meeting held on March 7, 2022, the Company approved the cancellation of 424,991,364 Class “I”, Series "B" common nominative shares representing the Company's capital stock, equivalent to 60,713,052 Ordinary Certificates, from the acquisition of own shares program that were in the Company's treasury.

As a consequence of the foregoing, the reduction of the capital stock in its fixed part was resolved in the amount of $9,747, an amount that is equal to the theoretical value of the canceled shares.

At the Ordinary General Stockholders' Meeting held on March 7, 2022, a reserve for the repurchase of shares of $200 million pesos was approved. Additionally, a maximum amount of resources remain in force during the following fiscal years, unless an Ordinary Stockholders' Meeting resolves to allocate a different amount to the purchase of treasury shares.

At the Ordinary General Stockholders' Meeting held on March 5, 2021, a reserve for the repurchase of shares of $200 million pesos was approved. For the year ended December 31, 2021, share repurchases were made for a total of 12,833,744 shares, which represented a decrease in the fund of $9,876.

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

As of December 31, 2022, 2021 and 2020, the balance of the reserve for the repurchase of share is $200,000, $190,124 and $186,320, respectively.

After the above-mentioned events, 19,824,236,117 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, 2020	20,074,913,404
Repurchase of shares	237,843,543
Shares as of December 31, 2020	19,837,069,861
Repurchase of shares	12,833,744
Shares as of December 31, 2021	19,824,236,117
Repurchase of shares	-
Shares as of December 31, 2022	19,824,236,117

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.

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, 2022, the tax value of the CUFIN and tax value of the Capital Contribution Account (CUCA from Spanish) amounted to $1,313,151 and $29,845,908, respectively.

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

22. Revenues

a. Income for services:

	2022	2021	2020
Voice	$ 914,829	$ 1,023,919	$ 1,283,749
Managed networks	3,251,309	3,598,641	4,074,645
Internet data	4,192,632	4,553,229	4,551,367
Administrative applications	190,701	222,787	305,967
Hosting	273,832	359,020	518,727
System integration	652,537	686,741	770,191
Security	493,251	506,289	464,395
Cloud services	425,026	335,385	298,565
Other services	85,479	103,483	88,375
Total	$10,479,596	$11,389,494	$12,355,981

b. Income by geographical areas:

	2022	2021	2020
Mexico	$10,468,216	$11,376,083	$12,319,963
Outside Mexico	11,380	13,411	36,018
Total	$10,479,596	$11,389,494	$12,355,981

23. Expenses classified by their nature

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

	2022	2021	2020
Service cost [(1)]	$2,792,788	$ 3,138,292	$ 3,458,788
Employee benefit expenses (Note 26)	2,335,222	2,360,066	2,633,733
Maintenance	544,282	599,006	677,386
Depreciation and amortization	2,806,263	3,179,364	3,384,219
Advertising expenses	19,787	21,544	54,225
Energy and fuel consumption	277,250	257,394	272,669
Travel expenses	22,422	11,833	20,342
Lease expenses	948,345	942,627	893,842
Technical assistance, professional fees and administrative services	185,866	132,483	165,850
Other	449,993	101,278	22,296
Total	$10,382,218	$10,743,887	$11,583,350

(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.

24. Other income (expenses), net

	2022	2021	2020
Impairment of non-current assets	$ (8,038)	$ (30,790)	$(170,315)
Impairment of investments	(22,844)	(290,114)	-
Gain (loss) on sale of property, plant and equipment [(1)]	25,449	(1,327)	2,022,963
Other income (expenses), net	81,927	(31,128)	147,221
Total other income (expenses), net	$ 76,494	$(353,359)	$1,999,869

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

25. Financial result, net

	2022	2021	2020
Financial income:			
Interest income on short-term bank deposits	$ 81,622	$ 24,909	$ 38,878
Other financial income	204,557	-	-
Total financial income	$ 286,179	$ 24,909	$ 38,878
Financial expenses:			
Interest expense on bank loans	(355,636)	$ (357,867)	$ (408,080)
Interest expense on senior notes	(611,410)	(650,613)	(817,685)
Interest expense on leases	(37,695)	(54,702)	(68,157)
Financial expenses related to employee benefits	(32,171)	(31,394)	(28,914)
Other financial expenses	(21,442)	(94,133)	(55,179)
Total financial expenses	$(1,058,354)	$(1,188,709)	$(1,378,015)
Exchange fluctuation gain (loss), net:			
Gain on exchange fluctuation	$ 5,229,662	$ 7,601,212	$ 7,217,500
Loss on exchange fluctuation	(4,718,405)	(7,878,807)	(7,602,784)
Exchange fluctuation gain (loss), net	$ 511,257	$ (277,595)	$ (385,284)

26. Employee benefit expenses

	2022	2021	2020
Salaries, wages and benefits	$1,906,718	$1,933,976	$2,191,558
Social security fees	329,048	327,803	338,279
Employee benefits	27,532	29,600	40,105
Other fees	71,924	68,687	63,791
Total	$2,335,222	$2,360,066	$2,633,733

Labor Reform Related to Vacations

On December 27, 2022, a decree was published by means of which articles 76 and 78 of the Federal Labor Law ("LFT" for its acronym in Spanish) for Mexico were reformed, which will be effective on January 1, 2023. The main changes resulting from this labor reform considers the increase in the minimum annual vacation period for workers with more than one year of service.

The Company evaluated the accounting impacts generated by this labor reform and determined that the increases in the vacation and vacation premium provision, as a result of the increase in vacation days, were not significant as of December 31, 2022.

27. Transactions with related parties

Balances with related parties as of December 31, 2022, 2021 and 2020, were as follows:

	December 31, 2022	
	Accounts receivable	Accounts payable
Affiliates	$15,158	$11,012
Total	$15,158	$11,012

	December 31, 2021	
	Accounts receivable	Accounts payable
Affiliates	$35,260	$ 666
Total	$35,260	$ 666

	December 31, 2020	
	Accounts receivable	Accounts payable
Affiliates	$ 8,202	$ 480
Total	$ 8,202	$ 480

(1) Indemnification (See Note 2).

Transactions with related parties for the years ended December 31, 2022, 2021 and 2020, 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, 2022		
	Income	Costs and expenses	
	Telecommunication services	Interests	Others
Affiliates	$ 166,096	$ -	$ 38,884
Total	$ 166,096	$ -	$ 38,884

	Year ended December 31, 2021		
	Income	Costs and expenses	
	Telecommunication services	Interests	Others
Affiliates	$ 145,073	$ -	$ 7,387
Total	$ 145,073	$ -	$ 7,387

	Year ended December 31, 2020		
	Income	Costs and expenses	
	Telecommunication services	Interests	Others
Holding company	$ -	$ 10,625	$ -
Affiliates	170, 756	-	9,480
Total	$ 170, 756	$ 10,625	$ 9,480

For the year ended December 31, 2022, 2021, 2020 compensation and benefits paid to the Company's main officers totaled $67,357, $66,098 and $116,791, respectively, 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.

28. Contingencies and commitments

As of December 31, 2022, there are the following commitments and contingencies with respect to Axtel and subsidiaries:

I. Contingencies

Interconnection Disagreements with other Mobile Operators.

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

2018 rates

i. One amparo lawsuit regarding interconnection (ITX), in which Axtel S.A.B. de C.V. (Axtel), appears as an interested third party.

ii. January 2018: The Company was notified of a writ filed by Telcel against the rates of the year 2018 determined by the Federal Telecommunications Institute ("IFT" for its acronym in Spanish).

iii. Current status: Dismissal due to the withdrawal of Telcel due to the resolution against it of the amparo under review 1091/2019 (Telcel vs ATT) and the various writs under review 489/2020 (Telcel vs Alestra Innovación). Concluded definitely in a favorable sense.

2019 rates

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

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

iii. Current status, first instance, given the precedents resolved by the SCJN, the outlook is favorable.

2020 rates

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

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

iii. Current status, first instance: Given the precedents resolved by the SCJN, the outlook is favorable.

2021 rates

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

ii. January 2021: The Company was notified of a writ filed by Telcel against the rates determined by the IFT, in terms of ITX and as Axtel's Virtual Mobile Operator (OMV), for the year 2021.

iii. Current status, first instance: Given the precedents resolved by the SCJN, the outlook is favorable.

2022 rates

i. Two amparo lawsuits, in matters of ITX and virtual mobile networks, where Axtel and Alestra Servicios Móviles (ASM) appear as an interested third party.

ii. January 2022: The Company was notified of a writ filed by Telcel against the rates determined by the IFT, in terms of ITX, for the year 2022.

iii. January 2022: The Company was notified of a writ filed by Telcel against the rates determined by the IFT, in terms of ITX and as Axtel's OMV, for the year 2022.

iv. Current status: First instance, given the precedents resolved by the SCJN, the outlook is favorable.

As of the date of issuance, the Company and its advisers consider that the rates will prevail based on the resolutions obtained before the IFT, especially since the precedents resolved by the SJCN are favorable to Axtel's interests, therefore, it is estimated that there is no longer an adverse scenario.

As of the date of issuance, the Company has recognized and paid the cost based on the rates determined by the IFT, and there are no provisions associated with this contingency.

b. Telefónica Group.

2018 rates

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

ii. January 2018: the Company was notified of two writs filed by Telefonica against the rates for the 2018 period determined by the IFT.

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

iv. Current status: In first instance, the suspension was lifted by instruction of the SCJN, Therefore, both lawsuits continue their process.

2019 rates

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

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

iii. Current status: In first instance: Given the precedents resolved by the SCJN, the outlook is favorable.

2020 rates

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

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

iii. Current status: In first instance: Given the precedents resolved by the SCJN, the outlook for the matter is favorable insofar as controversial issues were defined.

As of the date of issuance, the Company and its advisers consider that the rates will prevail based on the resolutions obtained before the IFT, especially since they have precedent in the Máximo Tribunal, therefore, it is estimated that an adverse scenario no longer exists.

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

c. Grupo AT&T.

2019 rates

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

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

iii. Current status: Dismissal for various wrongdoings, without challenge by the plaintiff. Concluded definitely in a favorable sense.

2020 rates

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

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

iii. Current status: In first instance.

As of the date of issuance, the Company and its advisers consider that the rates will prevail based on the resolutions obtained before the IFT, especially since there are precedents from the SCJN that are favorable to Axtel's arguments, therefore, it is estimated that there is no longer an adverse scenario.

As of the date of issuance, the Company has recognized and paid the cost based on the rates determined by the IFT, and there are no provisions associated with this contingency.

d. Interconnection disagreements with Telmex & Telnor.

2018 rates

i. A lawsuit regarding ITX / OMV, Axtel is considered an interested third party.

ii. January 2018: The Company was notified of two lawsuits, against the rates for the year 2018, determined by the IFT

iii. Current status: The OMV trial in the first instance is ongoing, and the ITX trial was concluded definitively in a favorable sense.

2019 rates

i. A lawsuit regarding ITX / OMV, Axtel is considered an interested third party.

ii. January 2019: The Company was notified of two lawsuits, against the rates for the 2019 period, determined by the IFT

iii. Current status: The writ filed against the ITX tariff was concluded definitely in a favorable sense, while the trial related to OMV was renewed by the SCJN, so it continues its process.

2020 rates

i. A lawsuit regarding ITX / OMV, Axtel is considered an interested third party.

ii. January 2020: The Company was notified of one amparo lawsuit, against the rates for the 2020 period, determined by the IFT

iii. Current status: In first instance.

2021 rates

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

ii. February 2021: the Company was notified of an amparo lawsuit filed against the rates for the year 2021.

iii. Current status: In first instance.

2022 rates

i. A lawsuit regarding ITX / OMV, Axtel is considered an interested third party.

ii. January 2022: the Company was notified of an amparo lawsuit filed against the rates for the year 2022, determined by the IFT.

iii. Current status: In first instance.

2023 rates

i. A lawsuit regarding ITX / OMV, Axtel is considered an interested third party.

ii. December 2022: the Company was notified of an amparo lawsuit filed against the rates for the year 2022, determined by the IFT.

iii. Current status: In first instance.

As of December 31, 2022, the Company and its advisers consider that the rates will prevail based on the resolutions obtained before the IFT, especially since they have precedent in the Máximo Tribunal and a series of litigation precedents favorable to the company, therefore, it is estimated that an adverse scenario no longer exists.

As of the date of issuance, the Company has recognized and paid the cost based on the rates determined by the IFT, and there are no provisions associated with this contingency.

e. Strategic Commercial Litigation

Lawsuits between Axtel and Solution Ware Integración, S. A. de C. V. (“Solution Ware”)

i. Axtel and Solution Ware participated in projects with the Government of Nuevo León, Secretariat of Labor and Social Welfare, Secretariat of Social Development, National Population Registry, National Forestry Commission, Seguros Monterrey and the Government of Tamaulipas.

Solution Ware filed various ordinary lawsuits in which it claims Axtel to pay for some purchase orders for services, as well as interest, damages and lost profits in addition to legal expenses and costs.

The lawsuit concerning the Government of Nuevo León is currently at a trial level.

The lawsuits concerning the Merger Opposition agreements, the Secretariat of Labor and Social Welfare, CONAFOR, Registro Nacional de Población, the Government of Tamaulipas and the Secretariat of Social Development definitively concluded in favor of the Company.

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

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

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

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

In October 2020, ION obtained a favorable protection, managing to modify the sentence in his favor to collect $ 12,199. The Company has made the corresponding reserve to face this contingency.

As of the date of issuance of the consolidated financial statements, the Company obtained an amparo ruling in its favor, modifying the sentence against it.

Compensatory Procedures in the Federal Superior Auditors ("ASF" for its acronym in Spanish)

iii. By May 2019, the ASF determined a compensation liability of $34,188, which was challenged by the TFJA, which, in April 2021, issued a judgment against the interests of the company, reason why an amparo proceeding was filed, which was resolved, not giving the amparo to the Company.

An Appeal for Review was filed and admitted before the SCJN, the matter is being processed.

With respect to the foregoing, in December 2019, the SAT notified S&C of an update and surcharges of $45,264, a determination that was challenged by an administrative lawsuit, which is currently suspended with the administrative enforcement procedure until the SCJN resolves the main matter. The tax credit is guaranteed.

In this regard, the Company and its advisors consider an average possibility of obtaining a favorable result for both lawsuits.

Lawsuit between Axtel and Secretariat of Welfare

iv. In 2022, Axtel filed an annulment lawsuit before the Federal Court of Administrative Justice, against the Secretariat of Welfare, in which a payment of $24,392 is claimed for the provision of services in the year 2020.

The matter is pending in the first instance.

In this sense, the Company and its advisers consider the possibility of obtaining a result with favorable prospects for said trial.

Other contingencies and notes:

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

Derived from the COVID-19 health emergency, the SCJN, the Federal Judicial Branch, Federal Courts and Local Courts, suspended terms and periods in various periods of the years 2020 and 2021, causing a delay in the procedures and resolutions of the matters where the Company is a part of.

29. Segment information

The information used by the CEO, who is the highest authority in making operational decisions, allocation of resources and evaluation of performance, is presented through its business units, Alestra, being the services unit, and Axtel Networks, the infrastructure unit.

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

Axtel has the second largest fiber network in Mexico, with an infrastructure of approximately 48,800 kilometers of fiber (including 13,400 kilometers of capacity).

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

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

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

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

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

Below is the consolidated financial information of the information segments:

I. Financial information by segments:

	2022			
	Services	**Infrastructure [2]**	**Inter-units**	**Total**
Sales by segment	$ 8,546,707	$4,387,723	$(2,454,834)	$10,479,596
Service cost	(4,911,971)	(335,651)	2,454,834	(2,792,788)
Expenses	(765,617)	(211,394)	-	(977,011)
Business unit contribution (BUC)	2,869,119	3,840,678	-	6,709,797
Unallocated expenses	(1,273,681)	(2,425,099)	-	(3,698,780)
Adjusted EBITDA	1,595,438	1,415,579	-	3,011,017
Impairment of non-current assets				(30,882)
Depreciation and amortization				(2,806,263)
Operating income				173,872
Financial result, net				(260,918)
Loss before taxes				$ (87,046)

	2021			
	Services	**Infrastructure**	**Inter-units**	**Total**
Sales by segment	$ 8,827,534	$ 5,016,696	$(2,454,736)	$ 11,389,494
Service cost	(5,177,136)	(415,892)	2,454,736	(3,138,292)
Expenses	(792,305)	(58,635)	-	(850,940)
Business unit contribution (BUC)	2,858,093	4,542,169	-	7,400,262
Unallocated expenses	(1,319,813)	(2,287,933)	-	(3,607,746)
Adjusted EBITDA	1,538,280	2,254,236	-	3,792,516
Impairment of non-current assets				(320,904)
Depreciation and amortization				(3,179,364)
Operating income				292,248
Financial result, net				(1,441,395)
Loss before taxes				$ (1,149,147)

	2020			
	Services	**Infrastructure**	**Inter-units**	**Total**
Sales by segment	$ 9,824,022	$ 4,982,716	$(2,450,757)	$ 12,355,981
Service cost	(5,533,688)	(375,857)	2,450,757	(3,458,788)
Expenses	(944,721)	(37,771)	-	(982,492)
Business unit contribution (BUC)	3,345,613	4,569,088	-	7,914,701
Unallocated expenses	(1,466,523)	(2,141,909)	-	(3,608,432)
Adjusted EBITDA	1,879,090	2,427,179	-	4,306,269
Sale of the data center	-	2,020,765	-	2,020,765
Adjusted EBITDA plus the sale of the data center			-	6,327,034
Impairment of non-current assets				(170,315)
Depreciation and amortization				(3,384,219)
Operating income				2,772,500
Financial result, net				(1,618,612)
Income (loss) before taxes				$ 1,153,888

30. Subsequent events

In preparing the consolidated financial statements, the Company has evaluated the events and transactions for recognition or disclosure subsequent to December 31, 2022 and through January 31, 2023, (issuance date of the consolidated financial statements), which are as follows:

On January 17, 2023, Axtel announced that it initiated an offer to purchase up to US$75 million principal of its 6.375% coupon notes due in 2024 (“Senior Notes 2024”). On January 31, 2023, Axtel announced the results of the early offering, where the Senior Notes 2024 offered by the holders and accepted by the Company was for US$77.7 million. In connection with this, the Company is also increasing the previously announced US$75 million offer limit to US$120 million. The Company has decided to extend the early offer date to February 13, 2023, which is also the expiration date of the offer.

31. Authorization to issue the consolidated financial statements

On January 31, 2023, the issuance of the accompanying consolidated financial statements was authorized by Armando de la Peña González, 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 stockholders’ meeting.

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INFORME ANUAL DEL COMITÉ DE AUDITORÍA Y PRÁCTICAS SOCIETARIAS

10 de febrero de 2023

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 2022.

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 2021 y 2022, 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;

2. Se analizaron los respectivos proyectos de aplicación de resultados de los ejercicios mencionados, presentados al Consejo de Administración para su proposición a las correspondientes Asambleas Generales Ordinarias anuales de accionistas de fechas 7 de marzo de 2022 y 7 de marzo de 2023, respectivamente; y

3. Se tuvo conocimiento y se aprobaron los estados financieros trimestrales divulgados por la Sociedad a través de la Bolsa Mexicana de Valores, S.A.B. de C.V..

II. **Actividades en relación con las operaciones de la Sociedad y sus subsidiarias, en materia de prácticas societarias.**

1. Se dio continuidad a la revisión de las actividades desarrolladas por la Sociedad para enfrentar la pandemia causada por el Covid;

2. Se analizó y revisó el desempeño y la remuneración integral de los directivos relevantes;

3. Se dio seguimiento al proceso para la selección de candidatos a ocupar la dirección general de la Sociedad; aprobándose la recomendación de la administración respecto de la designación de la persona para ocupar dicho cargo;

4. Se analizaron y revisaron los planes de sucesión de los directivos relevantes;

5. 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

6. Se dio seguimiento a la formalización de los acuerdos de las asambleas de accionistas y del Consejo de Administración en materia de prácticas societarias.

III. **<u>Actividades en relación con la auditoría externa e interna de las operaciones de la Sociedad y sus subsidiarias.</u>**

1. Se revisó el desempeño de la firma de auditoría externa de Axtel y subsidiarias, proponiendo después del análisis, el recomendar al Consejo de Administración, la ratificación de la contratación de los servicios de Galaz, Yamazaki, Ruiz, Urquiza, S.C. ("Deloitte"), así como el importe de los honorarios, tanto de los servicios de auditoría externa de estados financieros, como de los servicios distintos a los anteriores;

2. Se analizaron los programas de auditoría presentados por los auditores externos;

3. Se autorizó la contratación de los servicios distintos a los de auditoría externa de estados financieros proporcionados por Deloitte, no encontrándose situaciones que comprometan su independencia;

4. Se evaluó el desempeño de la firma de auditoría externa, así como el de la persona responsable de la misma;

5. Se revisó y analizó con los auditores externos de la Sociedad el dictamen sobre los mecanismos de control interno adoptados por la Sociedad y sus subsidiarias;

6. Se revisó el plan de acción con medidas preventivas y correctivas a las observaciones de la auditoría externa; particularmente lo relativo a (i) la corrección de las deficiencias no significativas señaladas; y (ii) la inmaterialidad de los ajustes propuestos no registrados;

7. Se tuvo conocimiento y se aprobaron los supuestos utilizados en la elaboración del Presupuesto 2023 de la Sociedad;

8. Se dio seguimiento por parte de la Sociedad, del cumplimiento de las obligaciones aplicables en las "Disposiciones de carácter general aplicables a entidades y emisoras supervisadas por la Comisión Nacional Bancaria y de Valores que contraten servicios de auditoría externa de estados financieros básicos";

9. 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;

10. Se analizó la administración del programa de adquisición de acciones propias;

11. Se analizaron los efectos de las modificaciones a las políticas contables aprobadas;

12. Se revisó la matriz de riesgos de la Sociedad, su probabilidad de ocurrencia y la existencia de acciones tendientes a la remediación o en su caso mitigación, de las consecuencias adversas que la materialización de dichos riesgos pudiese causar;

13. Se revisaron y validaron las acciones desarrolladas por la administración para asegurar que los sistemas de informática de la Sociedad y de sus subsidiarias, cuentan con las medias de protección y seguridad adecuadas para garantizar la continuidad de las operaciones sociales y en su caso mitigar las consecuencias de potenciales ataques cibernéticos;

14. Se tuvo conocimiento y se dio puntual seguimiento a la auditoría interna en la cual se revisaron y fortalecieron las políticas y procedimientos aplicables en la contratación de canales de distribución y en la contratación de terceros mediante asignación directa;

15. Se tuvo conocimiento y se dio puntual seguimiento a la decisión adoptada en asamblea general extraordinaria de accionistas de nuestra controladora Alfa, S.A.B. de .V., para llevar a cabo una escisión parcial de su patrimonio, transfiriendo a una nueva sociedad (Controladora Axtel), el 100% de la participación accionaria que actualmente detentan en el capital social de Axtel, S.A.B. de C.V.;

16. Se dio seguimiento a las revisiones iniciadas por autoridades fiscales, respecto de operaciones realizadas por la Sociedad y/o sus subsidiarias en ejercicios anteriores; y

17. Se dio seguimiento a la formalización de los acuerdos de las asambleas de accionistas y del Consejo de Administración, en materia de auditoría.

Atentamente,

Enrique Meyer Guzmán
Comité de Auditoría y Prácticas Societarias

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INFORME ANUAL DEL COMITÉ DE AUDITORÍA
Y PRÁCTICAS SOCIETARIAS

15 de febrero de 2022

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 2021.

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 2020 y 2021, 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 5 de marzo de 2021 y 7 de marzo de 2022, respectivamente.

II. **Actividades en relación con las operaciones de la Sociedad y sus subsidiarias, en materia de prácticas societarias.**

1. Se analizaron y revisaron las actividades desarrolladas por la Sociedad para enfrentar la pandemia causada por el Covid, vigilando que se privilegiara el cuidado de la salud de los colaboradores, la habilitación de las instalaciones, el fomento del trabajo a distancia y el aseguramiento de la continuidad de las operaciones bajo adecuadas medidas sanitarias;

2. Se analizó y revisó el desempeño y la remuneración integral de los directivos relevantes;

3. Se dio seguimiento al proceso de sucesión por jubilación, en la dirección general, ratificándose la recomendación de la administración respecto de la designación de la persona para ocupar dicho cargo;

4. Se analizaron y revisaron los planes de sucesión de los directivos relevantes;

5. Se tuvo conocimiento de las acciones implementadas por la Sociedad, para ajustar su estructura corporativa, así como el esquema de prestación de servicios corporativos a efecto de ajustarlos a las nuevas normas en materia de contratación y subcontratación de servicios;

6. 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

7. 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 con la auditoría externa e interna de las operaciones de la Sociedad y sus subsidiarias.**

1. Se revisó el desempeño de la firma de auditoría externa de Axtel y subsidiarias, proponiendo después del análisis, el recomendar al Consejo de Administración, la ratificación de la contratación de los servicios de Galaz, Yamazaki, Ruiz, Urquiza, S.C. ("Deloitte"), así como el importe de los honorarios, tanto de los servicios de auditoría externa de estados financieros, como de los servicios distintos a los anteriores;

2. Se analizó y procedió al plan de rotación del auditor externo de Deloitte, a fin de dar cumplimiento a las disposiciones legales aplicables;

3. Se analizaron los programas de auditoría presentados por los auditores externos;

4. Se autorizó la contratación de los servicios distintos a los de auditoría externa de estados financieros proporcionados por Deloitte, no encontrándose situaciones que comprometan su independencia;

5. Se evaluó el desempeño de la firma de auditoría externa, así como el de la persona responsable de la misma;

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 revisó el plan de acción con medidas preventivas y correctivas a las observaciones de la auditoría externa; particularmente lo relativo a (i) la corrección de las deficiencias significativas señaladas; y (ii) la inmaterialidad de los ajustes propuestos no registrados;

8. Se dio seguimiento por parte de la Sociedad, del cumplimiento de las obligaciones aplicables en las "Disposiciones de carácter general aplicables a entidades y emisoras supervisadas por la Comisión Nacional Bancaria y de Valores que contraten servicios de auditoría externa de estados financieros básicos";

9. 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;

10. Se analizó la administración del programa de adquisición de acciones propias;

11. Se analizaron los efectos de las modificaciones a las políticas contables aprobadas;

12. Se revisó la matriz de riesgos de la Sociedad, su probabilidad de ocurrencia y la existencia de acciones tendientes a la remediación o en su caso mitigación, de las consecuencias adversas que la materialización de dichos riesgos pudiese causar;

13. Se revisaron y validaron las acciones desarrolladas por la administración para asegurar que los sistemas de informática de la Sociedad y de sus subsidiarias, cuentan con las medias de protección y seguridad adecuadas para garantizar la continuidad de las operaciones sociales y en su caso mitigar las consecuencias de potenciales ataques cibernéticos;

14. Se dio seguimiento a las revisiones iniciadas por autoridades fiscales, respecto de operaciones realizadas por la Sociedad y/o sus subsidiarias en ejercicios anteriores; y

15. Se dio seguimiento a la formalización de los acuerdos de las asambleas de accionistas y del Consejo de Administración, en materia de auditoría.

Atentamente,

Enrique Meyer Guzmán
Comité de Auditoría y Prácticas Societarias

INFORME ANUAL DEL COMITÉ DE AUDITORÍA Y PRÁCTICAS SOCIETARIAS

19 de febrero de 2021

CONSEJO DE ADMINISTRACIÓN
DE AXTEL, S.A.B. de C.V.

En cumplimiento de lo dispuesto por el Artículo 43 de la Ley del Mercado de Valores y en mi carácter de Presidente del Comité de Auditoría y Prácticas Societarias de Axtel, S.A.B. de C.V. ("Axtel" o la "Sociedad"), así como, en representación de los demás consejeros independientes integrantes de dicho Comité, les presentamos un reporte sumario de las actividades desempeñadas por dicho Comité durante el ejercicio social terminado el 31 de diciembre de 2020.

Este informe se presenta, con base a información recibida por este órgano, y tomando en cuenta los informes, opiniones y/o comunicados de directivos relevantes y de los auditores externos e internos, todos ellos de la Sociedad, sobre los temas que le competen al Comité.

I. Actividades en relación con los Estados Financieros.

1. Se revisaron los estados financieros de Axtel y subsidiarias, por los ejercicios terminados el 31 de diciembre de 2019 y 2020, formulados en base a las Normas Internacionales de Información Financiera (IFRS, por sus siglas en inglés) y se analizaron con los auditores externos de la Sociedad su dictamen sobre dichos estados financieros y las notas a los

mismos, presentados al Consejo de Administración para su proposición a las correspondientes Asambleas Generales Ordinarias anuales de Accionistas; y

2. Se analizaron los respectivos proyectos de aplicación de resultados de los ejercicios mencionados, presentado al Consejo de Administración para su proposición a las correspondientes Asambleas Generales Ordinarias anuales de accionistas de fechas 25 de febrero de 2020 y 5 de marzo de 2021, respectivamente.

II. **Actividades en relación con las operaciones de la Sociedad y sus subsidiarias, en materia de prácticas societarias.**

1. Se analizó y revisó el desempeño y la remuneración integral de los directivos relevantes;

2. Se realizaron las investigaciones necesarias para estar en aptitud de informar respecto de: (i) la inexistencia de operaciones significativas con personas relacionadas; y (ii) la ausencia de dispensas para el aprovechamiento de negocios que correspondan a la sociedad y/o a sus subsidiarias, por parte de personas relacionadas;

3. Se tuvo conocimiento y participación en el inicio del proceso de sucesión en la Dirección General ante la decisión del Ing. Rolando Zubirán Shetler, de tomar los beneficios de su jubilación y retirarse de la Sociedad; en consecuencia, se ratificó la propuesta de designar al Ing. Eduardo Escalante Castillo como Director General Interino con fecha efectiva del 22 de enero de 2021; y

4. Se dio seguimiento a la formalización de los acuerdos de las asambleas de accionistas y del Consejo de Administración en materia de prácticas societarias.

III. **Actividades en relación con la auditoría externa e interna de las operaciones de la Sociedad y sus subsidiarias.**

1. Se revisó el desempeño de la firma de auditoría externa de Axtel y subsidiarias, proponiendo después del análisis, el recomendar al Consejo de Administración, la ratificación de la contratación de los servicios de Galaz, Yamazaki, Ruiz, Urquiza, S.C. ("Deloitte"), así como el importe de los honorarios, tanto de los servicios de auditoría externa como de los servicios distintos al de auditoría externa de estados financieros básicos;

2. Se analizaron los programas de auditoría presentados por los auditores externos;

3. Se autorizó la contratación de los servicios distintos al de auditoría externa de estados financieros básicos proporcionados por Deloitte, no encontrándose situaciones que comprometan su independencia;

4. Se evaluó el desempeño de la firma de auditoría externa, así como el de la persona responsable de la misma;

5. Se revisó y analizó con los auditores externos de la Sociedad el dictamen sobre los mecanismos de control interno adoptados por la Sociedad y sus subsidiarias;

6. Se revisó el plan de acción con medidas preventivas y correctivas a las observaciones de la auditoría externa; particularmente lo relativo a (i) la corrección de las deficiencias significativas señaladas; y (ii) la inmaterialidad de los ajustes propuestos no registrados;

7. Se dio seguimiento por parte de la Sociedad, del cumplimiento de las obligaciones aplicables en las “Disposiciones de carácter general aplicables a entidades y emisoras supervisadas por la Comisión Nacional Bancaria y de Valores que contraten servicios de auditoría externa de estados financieros básicos”;

8. Se analizaron los avances y resultados de los programas de control y auditoría interna; incluyendo, la determinación de áreas de oportunidad para mejorar la efectividad de los sistemas de auditoría interna;

9. Se analizó la administración del programa de adquisición de acciones propias;

10. Se analizaron los efectos de las modificaciones a las políticas contables aprobadas; y

11. Se dio seguimiento a la formalización de los acuerdos de las asambleas de accionistas y del Consejo de Administración, en materia de auditoría.

IV. **Actividades en relación con la pandemia causada por el virus SARS-CoV2 (COVID 19).**

Se revisaron las medidas tomadas por la Sociedad para prevenir los contagios asociados con el virus y en su caso, para mitigar sus consecuencias. Se apoyó la medida adoptada por la administración de mantener al personal administrativo laborando bajo la modalidad de “home office”, así como el nuevo modelo de gestión “Axtel Digital”. Se revisaron los planes y programas de capacitación ofrecidos a los colaboradores para proporcionarles información y recomendaciones que los auxiliasen en adoptar conductas dentro y fuera de los centros de trabajo para minimizar las infecciones y las fuentes de contagio, así como la creación de un fondo voluntariado para contingencias, el control de gasto de inversión, así como la implementación de procesos de alerta máximo ante ataques cibernéticos.

Atentamente,

Enrique Meyer Guzmán
Comité de Auditoría y Prácticas Societarias