

# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **01** YEAR: **2012**

**AXTEL, S.A.B. DE C.V.**

## STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2012, 31 DECEMBER 2011 AND 01 JANUARY 2011

(Thousand Pesos)

**CONSOLIDATED**

**Final Printing**

REF	ACCOUNT / SUBACCOUNT	ENDING CURRENT	PREVIOUS YEAR END	HOME PREVIOUS YEAR
		Amount	Amount	Amount
<b>10000000</b>	<b>TOTAL ASSETS</b>	<b>20,798,059</b>	<b>22,091,954</b>	<b>22,425,018</b>
<b>11000000</b>	<b>TOTAL CURRENT ASSETS</b>	<b>3,408,208</b>	<b>4,339,575</b>	<b>4,442,958</b>
11010000	CASH AND CASH EQUIVALENTS	460,594	1,372,896	1,250,143
11020000	SHORT-TERM INVESTMENTS	0	0	0
11020010	AVAILABLE-FOR-SALE INVESTMENTS	0	0	0
11020020	TRADING INVESTMENTS	0	0	0
11020030	HELD-TO-MATURITY INVESTMENTS	0	0	0
11030000	TRADE RECEIVABLES, NET	2,191,240	2,018,013	2,240,534
11030010	TRADE RECEIVABLES	4,238,495	4,025,091	4,059,229
11030020	ALLOWANCE FOR DOUBTFUL ACCOUNTS	-2,047,255	-2,007,078	-1,818,695
11040000	OTHER RECEIVABLES, NET	332,686	396,207	459,803
11040010	OTHER RECEIVABLES	332,686	396,207	459,803
11040020	ALLOWANCE FOR DOUBTFUL ACCOUNTS	0	0	0
11050000	INVENTORIES	136,658	152,756	165,629
11051000	BIOLOGICAL CURRENT ASSETS	0	0	0
11060000	OTHER CURRENT ASSETS	287,030	399,703	326,849
11060010	PREPAYMENTS	126,722	79,580	55,032
11060020	DERIVATIVE FINANCIAL INSTRUMENTS	29,958	184,911	55,782
11060030	ASSETS AVAILABLE FOR SALE	0	0	0
11060040	DISCONTINUED OPERATIONS	0	0	0
11060050	RIGHTS AND LICENSES	0	0	0
11060060	OTHER	130,350	135,212	216,035
<b>12000000</b>	<b>TOTAL NON-CURRENT ASSETS</b>	<b>17,389,851</b>	<b>17,752,379</b>	<b>17,982,060</b>
12010000	ACCOUNTS RECEIVABLE, NET	16,082	17,712	27,346
12020000	INVESTMENTS	9,649	9,667	44,341
12020010	INVESTMENTS IN ASSOCIATES AND JOINT VENTURES	9,649	9,667	44,341
12020020	HELD-TO-MATURITY INVESTMENTS	0	0	0
12020030	AVAILABLE-FOR-SALE INVESTMENTS	0	0	0
12020040	OTHER INVESTMENTS	0	0	0
12030000	PROPERTY, PLANT AND EQUIPMENT, NET	15,199,464	15,423,023	15,769,472
12030010	LAND AND BUILDINGS	430,990	430,990	430,990
12030020	MACHINERY AND INDUSTRIAL EQUIPMENT	27,859,841	27,518,874	26,312,273
12030030	OTHER EQUIPMENT	4,099,239	4,052,225	3,671,214
12030040	ACCUMULATED DEPRECIATION	-19,751,527	-19,021,012	-16,733,820
12030050	CONSTRUCTION IN PROGRESS	2,560,921	2,441,946	2,088,815
12040000	INVESTMENT PROPERTY	0	0	0
12050000	BIOLOGICAL NON- CURRENT ASSETS	0	0	0
12060000	INTANGIBLE ASSETS, NET	254,919	265,001	305,326
12060010	GOODWILL	0	0	0
12060020	TRADEMARKS	0	0	0
12060030	RIGHTS AND LICENSES	0	0	0
12060031	CONCESSIONS	254,919	265,001	305,326
12060040	OTHER INTANGIBLE ASSETS	0	0	0
12070000	DEFERRED TAX ASSETS	1,730,543	1,853,392	1,628,471
12080000	OTHER NON-CURRENT ASSETS	179,194	183,584	207,104
12080001	PREPAYMENTS	55,528	55,142	75,765
12080010	DERIVATIVE FINANCIAL INSTRUMENTS	0	0	0
12080020	EMPLOYEE BENEFITS	0	0	0
12080021	AVAILABLE FOR SALE ASSETS	0	0	0
12080030	DISCONTINUED OPERATIONS	0	0	0
12080040	DEFERRED CHARGES	57,793	60,495	65,445
12080050	OTHER	65,873	67,947	65,894
<b>20000000</b>	<b>TOTAL LIABILITIES</b>	<b>14,671,373</b>	<b>16,289,768</b>	<b>14,697,497</b>
<b>21000000</b>	<b>TOTAL CURRENT LIABILITIES</b>	<b>3,436,539</b>	<b>4,026,758</b>	<b>4,733,399</b>
21010000	BANK LOANS	0	0	280,000
21020000	STOCK MARKET LOANS	0	0	0
21030000	OTHER LIABILITIES WITH COST	362,173	380,880	375,996
21040000	TRADE PAYABLES	2,102,365	2,395,837	2,668,135
21050000	TAXES PAYABLE	71,321	168,319	153,733
21050010	INCOME TAX PAYABLE	71,321	168,319	153,733

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## STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2012, 31 DECEMBER 2011 AND 01 JANUARY 2011

(Thousand Pesos)

**CONSOLIDATED**

**Final Printing**

REF	ACCOUNT / SUBACCOUNT	ENDING CURRENT	PREVIOUS YEAR END	HOME PREVIOUS YEAR
		Amount	Amount	Amount
21050020	OTHER TAXES PAYABLE	0	0	0
21060000	OTHER CURRENT LIABILITIES	900,680	1,081,722	1,255,535
21060010	INTEREST PAYABLE	63,390	297,107	261,692
21060020	DERIVATIVE FINANCIAL INSTRUMENTS	136,696	16,888	127,549
21060030	DEFERRED REVENUE	554,333	567,878	667,665
21060050	EMPLOYEE BENEFITS	0	0	0
21060060	PROVISIONS	146,261	199,849	198,629
21060061	CURRENT LIABILITIES RELATED TO AVAILABLE FOR SALE ASSETS	0	0	0
21060070	DISCONTINUED OPERATIONS	0	0	0
21060080	OTHER	0	0	0
<b>22000000</b>	<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>11,234,834</b>	<b>12,263,010</b>	<b>9,964,098</b>
22010000	BANK LOANS	786,161	838,904	0
22020000	STOCK MARKET LOANS	9,794,984	10,702,656	9,453,182
22030000	OTHER LIABILITIES WITH COST	324,258	400,253	214,685
22040000	DEFERRED TAX LIABILITIES	0	0	0
22050000	OTHER NON-CURRENT LIABILITIES	329,431	321,197	296,231
22050010	DERIVATIVE FINANCIAL INSTRUMENTS	0	0	0
22050020	DEFERRED REVENUE	33,900	33,900	33,900
22050040	EMPLOYEE BENEFITS	23,083	21,935	19,972
22050050	PROVISIONS	260,298	253,129	223,824
22050051	NON-CURRENT LIABILITIES RELATED TO AVAILABLE FOR SALE ASSETS	0	0	0
22050060	DISCONTINUED OPERATIONS	0	0	0
22050070	OTHER	12,150	12,233	18,535
<b>30000000</b>	<b>TOTAL EQUITY</b>	<b>6,126,686</b>	<b>5,802,186</b>	<b>7,727,521</b>
30010000	EQUITY ATTRIBUTABLE TO OWNERS OF PARENT	6,126,686	5,802,186	7,727,521
30030000	CAPITAL STOCK	6,625,536	6,625,536	6,625,536
30040000	SHARES REPURCHASED	0	0	0
30050000	PREMIUM ON ISSUANCE OF SHARES	644,710	644,710	644,710
30060000	CONTRIBUTIONS FOR FUTURE CAPITAL INCREASES	0	0	0
30070000	OTHER CONTRIBUTED CAPITAL	0	0	0
30080000	RETAINED EARNINGS (ACCUMULATED LOSSES)	-948,123	-1,443,752	626,374
30080010	LEGAL RESERVE	0	0	0
30080020	OTHER RESERVES	162,334	162,334	162,334
30080030	RETAINED EARNINGS	-1,606,086	464,040	611,663
30080040	NET INCOME FOR THE PERIOD	495,629	-2,070,126	-147,623
30080050	OTHERS	0	0	0
30090000	ACCUMULATED OTHER COMPREHENSIVE INCOME (NET OF TAX)	-195,437	-24,308	-169,099
30090010	GAIN ON REVALUATION OF PROPERTIES	0	0	0
30090020	ACTUARIAL GAINS (LOSSES) FROM LABOR OBLIGATIONS	0	0	0
30090030	FOREIGN CURRENCY TRANSLATION	0	0	0
30090040	CHANGES IN THE VALUATION OF FINANCIAL ASSETS AVAILABLE FOR SALE	0	0	0
30090050	CHANGES IN THE VALUATION OF DERIVATIVE FINANCIAL INSTRUMENTS	-195,437	-24,308	-169,099
30090060	CHANGES IN FAIR VALUE OF OTHER ASSETS	0	0	0
30090070	SHARE OF OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINT VENTURES	0	0	0
30090080	OTHER COMPREHENSIVE INCOME	0	0	0
30020000	NON-CONTROLLING INTERESTS	0	0	0

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**AXTEL, S.A.B. DE C.V.**

## STATEMENT OF FINANCIAL POSITION INFORMATIONAL DATA

AT 31 MARCH 2012, 31 DECEMBER 2011 AND 01 JANUARY 2011

(Thousand Pesos)

**CONSOLIDATED**

**Final Printing**

REF	CONCEPTS	ENDING CURRENT	PREVIOUS YEAR END	HOME PREVIOUS YEAR
		Amount	Amount	Amount
91000010	SHORT-TERM FOREIGN CURRENCY LIABILITIES	1,184,572	1,761,144	0
91000020	LONG TERM FOREIGN CURRENCY LIABILITIES	10,471,063	11,478,717	0
91000030	CAPITAL STOCK (NOMINAL)	6,625,536	6,625,536	6,625,536
91000040	RESTATEMENT OF CAPITAL STOCK	0	0	0
91000050	PLAN ASSETS FOR PENSIONS AND SENIORITY PREMIUMS	0	0	0
91000060	NUMBER OF EXECUTIVES (*)	209	205	214
91000070	NUMBER OF EMPLOYEES (*)	6,035	6,250	6,967
91000080	NUMBER OF WORKERS (*)	1,467	1,569	1,799
91000090	OUTSTANDING SHARES (*)	8,769,353,223	8,769,353,223	8,769,353,223
91000100	REPURCHASED SHARES (*)	0	0	0
91000110	RESTRICTED CASH (1)	64,978	52,127	58,121
91000120	GUARANTEED DEBT OF ASSOCIATED COMPANIES	0	0	0

(1) THIS CONCEPT MUST BE FILLED WHEN THERE ARE GUARANTEES OR RESTRICTIONS THAT AFECC T CASH AND CASH EQUIVALENTS

(\*) DATA IN UNITS

# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **01**      YEAR **2012**

**AXTEL, S.A.B. DE C.V.**

## STATEMENTS OF COMPREHENSIVE INCOME

**CONSOLIDATED**

FOR THE THREE MONTHS ENDED 31 MARCH, 2012 AND 2011

(Thousand Pesos)

Final Printing

REF	ACCOUNT / SUBACCOUNT	CURRENT YEAR		PREVIOUS YEAR	
		ACCUMULATED	QUARTER	ACCUMULATED	QUARTER
<b>40010000</b>	<b>REVENUE</b>	<b>2,502,544</b>	<b>2,502,544</b>	<b>2,654,522</b>	<b>2,654,522</b>
40010010	SERVICES	2,502,544	2,502,544	2,654,522	2,654,522
40010020	SALE OF GOODS	0	0	0	0
40010030	INTERESTS	0	0	0	0
40010040	ROYALTIES	0	0	0	0
40010050	DIVIDENDS	0	0	0	0
40010060	LEASES	0	0	0	0
40010061	CONSTRUCTIONS	0	0	0	0
40010070	OTHER REVENUE	0	0	0	0
<b>40020000</b>	<b>COST OF SALES</b>	<b>624,696</b>	<b>624,696</b>	<b>758,764</b>	<b>758,764</b>
40021000	GROSS PROFIT	1,877,848	1,877,848	1,895,758	1,895,758
<b>40030000</b>	<b>GENERAL EXPENSES</b>	<b>1,870,618</b>	<b>1,870,618</b>	<b>1,860,938</b>	<b>1,860,938</b>
<b>40040000</b>	<b>PROFIT (LOSS) BEFORE OTHER INCOME (EXPENSE), NET</b>	<b>7,230</b>	<b>7,230</b>	<b>34,820</b>	<b>34,820</b>
<b>40050000</b>	<b>OTHER INCOME (EXPENSE), NET</b>	<b>1,354</b>	<b>1,354</b>	<b>27,821</b>	<b>27,821</b>
<b>40060000</b>	<b>OPERATING PROFIT (LOSS) (*)</b>	<b>8,584</b>	<b>8,584</b>	<b>62,641</b>	<b>62,641</b>
40070000	FINANCE INCOME	975,547	975,547	318,979	318,979
40070010	INTEREST INCOME	6,867	6,867	8,300	8,300
40070020	GAIN ON FOREIGN EXCHANGE, NET	968,680	968,680	310,679	310,679
40070030	GAIN ON DERIVATIVES, NET	0	0	0	0
40070040	GAIN ON CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS	0	0	0	0
40070050	OTHER FINANCE INCOME	0	0	0	0
40080000	FINANCE COSTS	281,677	281,677	247,655	247,655
40080010	INTEREST EXPENSE	267,343	267,343	243,097	243,097
40080020	LOSS ON FOREIGN EXCHANGE, NET	0	0	0	0
40080030	LOSS ON DERIVATIVES, NET	0	0	0	0
40080050	LOSS ON CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS	14,334	14,334	4,558	4,558
40080060	OTHER FINANCE COSTS	0	0	0	0
<b>40090000</b>	<b>FINANCE INCOME (COSTS), NET</b>	<b>693,870</b>	<b>693,870</b>	<b>71,324</b>	<b>71,324</b>
40100000	SHARE OF PROFIT (LOSS) OF ASSOCIATES AND JOINT VENTURES	-17	-17	1	1
<b>40110000</b>	<b>PROFIT (LOSS) BEFORE INCOME TAX</b>	<b>702,437</b>	<b>702,437</b>	<b>133,966</b>	<b>133,966</b>
40120000	INCOME TAX EXPENSE	206,808	206,808	43,657	43,657
40120010	CURRENT TAX	10,616	10,616	11,154	11,154
40120020	DEFERRED TAX	196,192	196,192	32,503	32,503
<b>40130000</b>	<b>PROFIT (LOSS) FROM CONTINUING OPERATIONS</b>	<b>495,629</b>	<b>495,629</b>	<b>90,309</b>	<b>90,309</b>
40140000	PROFIT (LOSS) FROM DISCONTINUED OPERATIONS	0	0	0	0
<b>40150000</b>	<b>NET PROFIT (LOSS)</b>	<b>495,629</b>	<b>495,629</b>	<b>90,309</b>	<b>90,309</b>
40160000	PROFIT (LOSS), ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	0	0	0	0
40170000	PROFIT (LOSS), ATTRIBUTABLE TO OWNERS OF PARENT	495,629	495,629	90,309	90,309
40180000	BASIC EARNINGS (LOSS) PER SHARE	0.06	0.06	0.01	0.01
40190000	DILUTED EARNINGS (LOSS) PER SHARE	0	0	0	0

# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **01** YEAR **2012**

**AXTEL, S.A.B. DE C.V.**

## STATEMENTS OF COMPREHENSIVE INCOME OTHER COMPREHENSIVE INCOME (NET OF INCOME TAX)

**CONSOLIDATED**

FOR THE THREE MONTHS ENDED 31 MARCH, 2012 AND 2011

(Thousand Pesos)

Final Printing

REF	ACCOUNT / SUBACCOUNT	CURRENT YEAR		PREVIOUS YEAR	
		ACCUMULATED	QUARTER	ACCUMULATED	QUARTER
<b>40200000</b>	<b>NET PROFIT (LOSS)</b>	<b>495,629</b>	<b>495,629</b>	<b>90,309</b>	<b>90,309</b>
	<b>DISCLOSURES NOT BE RECLASSIFIED ON INCOME</b>				
40210000	PROPERTY REVALUATION GAINS	0	0	0	0
40220000	ACTUARIAL EARNINGS (LOSS) FROM LABOR OBLIGATIONS	0	0	0	0
40220100	SHARE OF INCOME ON REVALUATION ON PROPERTIES OF ASSOCIATES AND JOINT VENTURES	0	0	0	0
	<b>DISCLOSURES MAY BE RECLASSIFIED SUBSEQUENTLY TO INCOME</b>				
40230000	FOREING CURRENCY TRANSLATION	0	0	0	0
40240000	CHANGES IN THE VALUATION OF FINANCIAL ASSETS HELD-FOR-SALE	0	0	0	0
40250000	CHANGES IN THE VALUATION OF DERIVATIVE FINANCIAL INSTRUMENTS	-171,129	-171,129	-61,296	-61,296
40260000	CHANGES IN FAIR VALUE OF OTHER ASSETS	0	0	0	0
40270000	SHARE OF OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINT VENTURES	0	0	0	0
<b>40280000</b>	<b>OTHER COMPREHENSIVE INCOME</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>40290000</b>	<b>TOTAL OTHER COMPREHENSIVE INCOME</b>	<b>-171,129</b>	<b>-171,129</b>	<b>-61,296</b>	<b>-61,296</b>
<b>40300000</b>	<b>TOTAL COMPREHENSIVE INCOME</b>	<b>324,500</b>	<b>324,500</b>	<b>29,013</b>	<b>29,013</b>
40320000	COMPREHENSIVE INCOME, ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	0	0	0	0
40310000	COMPREHENSIVE INCOME, ATTRIBUTABLE TO OWNERS OF PARENT	324,500	324,500	29,013	29,013

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QUARTER: **01** YEAR **2012**

**AXTEL, S.A.B. DE C.V.**

## STATEMENTS OF COMPREHENSIVE INCOME INFORMATIONAL DATA

**CONSOLIDATED**

FOR THE THREE MONTHS ENDED 31 MARCH, 2012 AND 2011

(Thousand Pesos)

**Final Printing**

REF	ACCOUNT / SUBACCOUNT	CURRENT YEAR		PREVIOUS YEAR	
		ACCUMULATED	QUARTER	ACCUMULATED	QUARTER
9200010	OPERATING DEPRECIATION AND AMORTIZATION	751,605	751,605	786,633	786,633
9200020	EMPLOYEES PROFIT SHARING EXPENSES	0	0	429	429

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QUARTER: **01**      YEAR **2012**

**AXTEL, S.A.B. DE C.V.**

## STATEMENTS OF COMPREHENSIVE INCOME INFORMATIONAL DATA (12 MONTHS)

**CONSOLIDATED**

FOR THE THREE MONTHS ENDED 31 MARCH, 2012 AND 2011

(Thousand Pesos)

**Final Printing**

REF	ACCOUNT / SUBACCOUNT	YEAR	
		CURRENT	PREVIOUS
92000030	REVENUE NET (**)	10,677,427	0
92000040	OPERATING PROFIT (LOSS) (**)	-7,561	0
92000050	PROFIT (LOSS), ATTRIBUTABLE TO OWNERS OF PARENT(**)	-1,664,806	0
92000060	NET PROFIT (LOSS) (**)	-1,664,806	0
92000070	OPERATING DEPRECIATION AND AMORTIZATION (**)	3,067,796	0

(\*) TO BE DEFINED BY EACH COMPANY

(\*\*) INFORMATION LAST 12 MONTHS

# MEXICAN STOCK EXCHANGE

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QUARTER: **01** YEAR: **2012**

**AXTEL, S.A.B. DE C.V.**

## STATEMENT OF CASH FLOWS

TO MARCH 31 OF 2012 AND 2011

(Thousand Pesos)

**CONSOLIDATED**

**Final Printing**

REF	ACCOUNT/SUBACCOUNT	CURRENT YEAR	PREVIOUS YEAR
		Amount	Amount
<b>OPERATING ACTIVITIES</b>			
<b>50010000</b>	<b>PROFIT (LOSS) BEFORE INCOME TAX</b>	<b>702,437</b>	<b>133,966</b>
50020000	+(-) ITEMS NOT REQUIRING CASH	0	429
50020010	+ ESTIMATE FOR THE PERIOD	0	0
50020020	+ PROVISION FOR THE PERIOD	0	429
50020030	+(-) OTHER UNREALISED ITEMS	0	0
50030000	+(-) ITEMS RELATED TO INVESTING ACTIVITIES	756,976	787,938
50030010	DEPRECIATION AND AMORTISATION FOR THE PERIOD	751,605	786,633
50030020	(-)+ GAIN OR LOSS ON SALE OF PROPERTY, PLANT AND EQUIPMENT	-74	1,306
50030030	+(-) LOSS (REVERSAL) IMPAIRMENT	0	0
50030040	(-)+ EQUITY IN RESULTS OF ASSOCIATES AND JOINT VENTURES	17	-1
50030050	(-) DIVIDENDS RECEIVED	0	0
50030060	(-) INTEREST RECEIVED	0	0
50030070	(-) EXCHANGE FLUCTUATION	0	0
50030080	(-)+ OTHER INFLOWS (OUTFLOWS) OF CASH	5,428	0
50040000	+(-) ITEMS RELATED TO FINANCING ACTIVITIES	288,712	246,096
50040010	(+) ACCRUED INTEREST	267,343	243,097
50040020	(+) EXCHANGE FLUCTUATION	0	0
50040030	(+) DERIVATIVE TRANSACTIONS	14,334	4,558
50040040	(-)+ OTHER INFLOWS (OUTFLOWS) OF CASH	7,035	-1,559
<b>50050000</b>	<b>CASH FLOWS BEFORE INCOME TAX</b>	<b>1,748,125</b>	<b>1,168,429</b>
50060000	CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	-627,297	-97,340
50060010	+(-) DECREASE (INCREASE) IN TRADE ACCOUNTS RECEIVABLE	-173,227	185,563
50060020	+(-) DECREASE (INCREASE) IN INVENTORIES	16,097	244
50060030	+(-) DECREASE (INCREASE) IN OTHER ACCOUNTS RECEIVABLE	44,728	99,102
50060040	+(-) INCREASE (DECREASE) IN TRADE ACCOUNTS PAYABLE	-361,334	-221,571
50060050	+(-) INCREASE (DECREASE) IN OTHER LIABILITIES	-65,985	-98,185
50060060	+(-) INCOME TAXES PAID OR RETURNED	-87,576	-62,493
<b>50070000</b>	<b>NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>	<b>1,120,828</b>	<b>1,071,089</b>
<b>INVESTING ACTIVITIES</b>			
50080000	NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES	-500,697	-738,069
50080010	(-) PERMANENT INVESTMENTS	0	-805
50080020	+ DISPOSITION OF PERMANENT INVESTMENTS	0	0
50080030	(-) INVESTMENT IN PROPERTY, PLANT AND EQUIPMENT	-502,245	-749,390
50080040	+ SALE OF PROPERTY, PLANT AND EQUIPMENT	0	0
50080050	(-) TEMPORARY INVESTMENTS	0	0
50080060	+ DISPOSITION OF TEMPORARY INVESTMENTS	0	0
50080070	(-) INVESTMENT IN INTANGIBLE ASSETS	0	0
50080080	+ DISPOSITION OF INTANGIBLE ASSETS	0	0
50080090	(-) ACQUISITIONS OF VENTURES	0	0
50080100	+ DISPOSITIONS OF VENTURES	0	0
50080110	+ DIVIDEND RECEIVED	0	0
50080120	+ INTEREST RECEIVED	0	0
50080130	+(-) DECREASE (INCREASE) ADVANCES AND LOANS TO THIRD PARTS	0	0
50080140	-(+)- OTHER INFLOWS (OUTFLOWS) OF CASH	1,548	12,126
<b>FINANCING ACTIVITIES</b>			
50090000	NET CASH FLOW FROM (USED IN) FINANCING ACTIVITIES	-563,753	-491,880
50090010	+ BANK FINANCING	0	72,000
50090020	+ STOCK MARKET FINANCING	0	0
50090030	+ OTHER FINANCING	0	0
50090040	(-) BANK FINANCING AMORTISATION	0	0
50090050	(-) STOCK MARKET FINANCING AMORTISATION	0	0
50090060	(-) OTHER FINANCING AMORTISATION	-72,835	-92,793
50090070	+(-) INCREASE (DECREASE) IN CAPITAL STOCK	0	0
50090080	(-) DIVIDENDS PAID	0	0
50090090	+ PREMIUM ON ISSUANCE OF SHARES	0	0
50090100	+ CONTRIBUTIONS FOR FUTURE CAPITAL INCREASES	0	0
50090110	(-) INTEREST EXPENSE	-472,055	-432,167
50090120	(-) REPURCHASE OF SHARES	0	0
50090130	(-)+ OTHER INFLOWS (OUTFLOWS) OF CASH	-18,863	-38,920



# MEXICAN STOCK EXCHANGE

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QUARTER: **01** YEAR: **2012**

**AXTEL, S.A.B. DE C.V.**

## STATEMENT OF CASH FLOWS

TO MARCH 31 OF 2012 AND 2011  
(Thousand Pesos)

**CONSOLIDATED**  
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REF	ACCOUNT/SUBACCOUNT	CURRENT YEAR	PREVIOUS YEAR
		Amount	Amount
50100000	NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	56,378	-158,860
50110000	EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	-968,680	-310,679
50120000	CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,372,896	1,250,143
50130000	CASH AND CASH EQUIVALENTS AT END OF PERIOD	460,594	780,604

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: AXTEL  
 AXTEL, S.A.B. DE C.V.

QUARTER: 01 YEAR: 2012

STATEMENT OF CHANGES IN EQUITY  
 (THOUSAND PESOS)

CONSOLIDATED  
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CONCEPTS	CAPITAL STOCK	SHARES REPURCHASED	PREMIUM ON ISSUANCE OF SHARES	CONTRIBUTIONS FOR FUTURE CAPITAL INCREASES	OTHER CAPITAL CONTRIBUTED	RETAINED EARNINGS (ACCUMULATED LOSSES)		ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	EQUITY ATTRIBUTABLE TO OWNERS OF PARENT	NON-CONTROLLING INTERESTS	TOTAL EQUITY
						RESERVES	UNAPPROPRIATE D EARNINGS (ACCUMULATED LOSSES)				
<b>BALANCE AT JANUARY 1, 2011</b>	6,625,536	0	644,710	0	0	162,334	464,040	-169,099	7,727,521	0	7,727,521
RETROSPECTIVE ADJUSTMENTS	0	0	0	0	0	0	0	0	0	0	0
APPLICATION OF COMPREHENSIVE INCOME TO RETAINED EARNINGS	0	0	0	0	0	0	0	0	0	0	0
RESERVES	0	0	0	0	0	0	0	0	0	0	0
DIVIDENDS	0	0	0	0	0	0	0	0	0	0	0
CAPITAL INCREASE (DECREASE)	0	0	0	0	0	0	0	0	0	0	0
REPURCHASE OF SHARES	0	0	0	0	0	0	0	0	0	0	0
(DECREASE) INCREASE IN PREMIUM ON ISSUE OF SHARES	0	0	0	0	0	0	0	0	0	0	0
(DECREASE) INCREASE IN NON-CONTROLLING INTERESTS	0	0	0	0	0	0	0	0	0	0	0
OTHER CHANGES	0	0	0	0	0	0	0	0	0	0	0
COMPREHENSIVE INCOME	0	0	0	0	0	0	90,309	-61,296	29,013	0	29,013
<b>BALANCE AT MARCH 31, 2011</b>	6,625,536	0	644,710	0	0	162,334	554,349	-230,395	7,756,534	0	7,756,534
<b>BALANCE AT JANUARY 1, 2012</b>	6,625,536	0	644,710	0	0	162,334	-1,606,086	-24,308	5,802,186	0	5,802,186
RETROSPECTIVE ADJUSTMENTS	0	0	0	0	0	0	0	0	0	0	0
APPLICATION OF COMPREHENSIVE INCOME TO RETAINED EARNINGS	0	0	0	0	0	0	0	0	0	0	0
RESERVES	0	0	0	0	0	0	0	0	0	0	0
DIVIDENDS	0	0	0	0	0	0	0	0	0	0	0
CAPITAL INCREASE (DECREASE)	0	0	0	0	0	0	0	0	0	0	0
REPURCHASE OF SHARES	0	0	0	0	0	0	0	0	0	0	0
(DECREASE) INCREASE IN PREMIUM ON ISSUE OF SHARES	0	0	0	0	0	0	0	0	0	0	0
(DECREASE) INCREASE IN NON-CONTROLLING INTERESTS	0	0	0	0	0	0	0	0	0	0	0
OTHER CHANGES	0	0	0	0	0	0	0	0	0	0	0
COMPREHENSIVE INCOME	0	0	0	0	0	0	495,629	-171,129	324,500	0	324,500
<b>BALANCE AT MARCH 31, 2012</b>	6,625,536	0	644,710	0	0	162,334	-1,110,457	-195,437	6,126,686	0	6,126,686

# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: AXTEL

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AXTEL, S.A.B. DE C.V.

## DISCUSSION AND ANALYSIS OF THE ADMINISTRATION ON THE RESULTS OF OPERATIONS AND FINANCIAL CONDITION OF THE COMPANY

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SAN PEDRO GARZA GARCIA, MEXICO, APRIL 26, 2012 - AXTEL, S.A.B. DE C.V. ("AXTEL" OR "THE COMPANY"), A LEADING MEXICAN FIXED-LINE INTEGRATED TELECOMMUNICATIONS COMPANY, ANNOUNCED TODAY ITS UNAUDITED FIRST QUARTER RESULTS ENDED MARCH 31, 2012 (1)

FOR ADDITIONAL INFORMATION, PLEASE CONTACT ADRIAN DE LOS SANTOS, INVESTOR RELATIONS OFFICER AND CORPORATE FINANCE DIRECTOR AT IR@AXTEL.COM.MX

### HIGHLIGHTS:

MASS MARKET SEGMENT REVENUES AND GROSS MARGIN ROSE 4% AND 8%, RESPECTIVELY, COMPARED TO FIRST QUARTER 2011. REVENUES IN INTEGRATED SERVICES, A KEY DRIVER OF AXTEL'S ENTERPRISE SEGMENT PERFORMANCE, INCREASED 15% COMPARED TO FIRST QUARTER 2011.

RGUS INCREASED 28 THOUSAND IN THE FIRST QUARTER, MOSTLY EXPLAINED BY GROWTH IN BROADBAND SUBSCRIBERS, WHICH TOTALED 464 THOUSAND AS OF THE END OF THE QUARTER. THIS REPRESENTED AN INCREASE OF 32% COMPARED TO FIRST QUARTER 2011. FTTH SUBSCRIBERS REPRESENTED 13% OF TOTAL BROADBAND SUBSCRIBERS' BASE AS OF THE END OF THE QUARTER.

REVENUES DECREASED 6% COMPARED TO FIRST QUARTER 2011. THE EFFECT FROM THE PHASING-OUT OF A MAJOR WHOLESALE CUSTOMER NEGATIVELY IMPACTED REVENUES BY 4%. DURING THE QUARTER, A SIGNIFICANT DECLINE IN INTERNATIONAL TRAFFIC MARKET PRICES ALSO NEGATIVELY AFFECTED REVENUES BY AN ADDITIONAL 3%.

### REVENUES FROM OPERATIONS

REVENUES FROM OPERATIONS TOTALED PS. 2,503 MILLION IN THE FIRST QUARTER OF YEAR 2012 FROM PS. 2,655 MILLION FOR THE SAME PERIOD IN 2011, A DECREASE OF PS. 152 MILLION.

REVENUES FROM OPERATIONS TOTALED PS. 10,677 MILLION IN THE TWELVE-MONTH PERIOD ENDED MARCH 31, 2012, COMPARED TO PS. 10,840 MILLION IN THE SAME PERIOD IN 2011, A DECREASE OF PS. 163 MILLION, OR 2%.

### SOURCES OF REVENUES

IMPORTANT DISCLOSURE. UNLESS OTHERWISE STATED, COMMENTS IN THIS SECTION EXCLUDE REVENUES GENERATED BY OUR LARGEST WHOLESALE CUSTOMER (SEE NOTE 9 FOR FURTHER INFORMATION).

LOCAL SERVICES. LOCAL SERVICE REVENUES TOTALED PS. 912 MILLION IN THE FIRST QUARTER OF 2012, COMPARED TO PS. 961 MILLION FOR SAME PERIOD IN 2011, REPRESENTING A DECREASE OF PS. 50 MILLION OR 5%, EXPLAINED BY PS. 15 MILLION, PS. 23 MILLION AND PS. 12 MILLION DECREASES IN MEASURED SERVICES, CELLULAR REVENUES AND MONTHLY RENTS, RESPECTIVELY. THE 2% DECLINE IN RENTS IS EXPLAINED BY NEW COMMERCIAL OFFERS INTRODUCED IN THE THIRD AND FOURTH QUARTER OF 2011 WHILE THE 12% DECLINE IN CELLULAR REVENUE IS EXPLAINED BY A 2% DECREASE IN BILLED-TRAFFIC VOLUME AND A 11% DECREASE IN BILLED-TRAFFIC PRICES IN THE FIRST QUARTER OF 2012 COMPARED TO THE SAME PERIOD IN 2011. REVENUES COMING FROM MONTHLY RENTS REPRESENTED 76% OF LOCAL REVENUES DURING THE THREE-MONTH PERIOD ENDED MARCH 31, 2012. FOR THE TWELVE MONTH PERIOD ENDED MARCH 31, 2012, LOCAL REVENUES TOTALED PS. 3,745 MILLION, COMPARED TO PS. 3,895 MILLION REGISTERED IN THE SAME PERIOD IN 2011, A DECREASE OF PS. 150 MILLION OR 4%.

LONG DISTANCE SERVICES. REVENUES TOTALED PS. 267 MILLION IN THE FIRST QUARTER OF 2012, COMPARED TO PS. 287 MILLION FOR SAME PERIOD IN 2011, REPRESENTING A DECREASE OF PS. 20 MILLION, EXPLAINED BY A 7% DECREASE IN BILLED-TRAFFIC PRICES. FOR THE TWELVE MONTH

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PERIOD ENDED MARCH 31, 2012, LONG DISTANCE REVENUES TOTALED PS. 1,132 MILLION COMPARED TO PS. 1,152 MILLION REGISTERED IN 2011, A PS. 20 MILLION, OR 2%, DECLINE.

DATA & NETWORK. DATA AND NETWORK REVENUES AMOUNTED TO PS. 684 MILLION IN THE FIRST QUARTER OF 2012, COMPARED TO PS. 654 MILLION IN THE SAME PERIOD IN 2011, A PS. 30 MILLION INCREASE DRIVEN BY MASS-MARKET, OR, "ON-DEMAND" INTERNET SERVICES REVENUES THAT INCREASED 53% YEAR-OVER-YEAR WHILE THE COMBINATION OF DEDICATED INTERNET AND PRIVATE LINES REVENUES DECLINED 6%. MASS-MARKET, OR, "ON-DEMAND" INTERNET SERVICES REPRESENTED 26% OF DATA & NETWORK REVENUES DURING THE QUARTER. DURING THE LAST-TWELVE-MONTH PERIOD ENDED ON MARCH 31, 2012, DATA AND NETWORK SERVICES REVENUES TOTALED PS. 2,615 MILLION FROM PS. 2,544 MILLION REGISTERED IN 2011, AN INCREASE OF PS. 71 MILLION, OR 3%.

INTERNATIONAL TRAFFIC. IN THE FIRST QUARTER OF 2012, INTERNATIONAL TRAFFIC REVENUES TOTALED PS. 201 MILLION, A DECREASE OF PS. 69 MILLION OR 26% VERSUS SAME QUARTER OF PREVIOUS YEAR, EXPLAINED BY A DECLINE IN DOLLAR PRICES AND AN 11% REDUCTION IN VOLUME. IN PESO TERMS, THE PRICE DECLINE WAS PARTIALLY MITIGATED BY A 7% APPRECIATION OF THE AVERAGE US DOLLAR RATE AGAINST THE MEXICAN PESO. FOR THE TWELVE MONTH PERIOD ENDED MARCH 31, 2012, REVENUES FROM INTERNATIONAL TRAFFIC TOTALED PS. 1,177 MILLION FROM PS. 1,206 MILLION, A DECLINE OF 2% COMPARED TO THE SAME PERIOD IN 2011 EXPLAINED BY A 5% DECLINE IN VOLUME PARTIALLY COMPENSATED BY THE BENEFIT OF A BETTER TRAFFIC MIX INCLUDING A HIGHER PROPORTION OF LONG-DISTANCE FIXED-TO-MOBILE TRAFFIC.

OTHER SERVICES. QUARTERLY REVENUES FROM OTHER SERVICES TOTALED PS. 389 MILLION IN THE FIRST QUARTER OF 2012, FROM PS. 339 MILLION IN THE SAME QUARTER OF PREVIOUS YEAR, AN INCREASE OF PS. 50 MILLION OR 15%, MOSTLY EXPLAINED BY REVENUES FROM INTEGRATED SERVICES AND EQUIPMENT SALES. FOR THE TWELVE MONTH PERIOD ENDED MARCH 31, 2012, REVENUES TOTALED PS. 1,635 MILLION FROM PS. 1,404 MILLION REGISTERED IN 2011, AN INCREASE OF PS. 231 MILLION, OR 16%.

## CONSUMPTION

LOCAL CALLS. LOCAL CALLS EXCLUDING OUR LARGEST WHOLESALE CUSTOMER TOTALED 441 MILLION CALLS IN THE FIRST QUARTER OF 2012, COMPARED TO 471 MILLION CALLS FOR SAME PERIOD IN 2011, REPRESENTING A DECREASE OF 30 MILLION CALLS, OR 6%. BILLED LOCAL CALLS DECREASED 2 MILLION OR 2%, WHILE LOCAL CALLS INCLUDED IN COMMERCIAL OFFERS ALSO DECLINED 28 MILLION CALLS OR 8%. BUSINESS AND RESIDENTIAL CUSTOMERS CONTRIBUTED WITH 1 MILLION CALLS EACH TO THE BILLED LOCAL CALLS DECLINE. LOCAL CALLS INCLUDED IN COMMERCIAL OFFERS REPRESENTED 77% OF TOTAL CALLS IN THE FIRST QUARTER OF 2012. FOR THE TWELVE MONTH PERIOD ENDED MARCH 31, 2012, LOCAL CALLS TOTALED 1,812 MILLION EXCLUDING OUR LARGEST WHOLESALE CUSTOMER, COMPARED TO 1,911 MILLION REGISTERED IN THE SAME PERIOD IN 2011, A DECLINE OF 99 MILLION CALLS, OR 5%.

CELLULAR ("CALLING PARTY PAYS"). MINUTES OF USE OF CALLS COMPLETED TO A CELLULAR LINE EXCLUDING OUR LARGEST WHOLESALE CUSTOMER AMOUNTED TO 159 MILLION IN THE THREE-MONTH PERIOD ENDED MARCH 31, 2012, COMPARED TO 151 MILLION IN THE SAME PERIOD IN 2011, AN INCREASE OF 5% EQUIVALENT TO 8 MILLION MINUTES. BILLED CELLULAR MINUTES DECREASED 2 MILLION OR 2%, WHILE MINUTES IN MODULES INCLUDED IN A MONTHLY RENT INCREASED 10 MILLION MINUTES OR 28%. BILLED CELLULAR MINUTES REPRESENTED 72% OF CELLULAR MINUTES IN THE FIRST QUARTER OF 2012. FOR THE YEAR 2012 AND EXCLUDING OUR LARGEST WHOLESALE CUSTOMER, CELLULAR MINUTES DECLINED 26 MILLION, OR 4%, FROM 653 MILLION REGISTERED IN THE TWELVE-MONTH PERIOD ENDED MARCH 31, 2011, TO 627 MILLION IN 2012.

LONG DISTANCE. EXCLUDING OUR LARGEST WHOLESALE CUSTOMER, WHICH REPRESENTS 15% OF TOTAL VOLUME, OUTGOING LONG DISTANCE MINUTES AMOUNTED TO 475 MILLION FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2012, FROM 472 MILLION IN THE SAME PERIOD IN 2011, A 1% OR 3 MILLION MINUTE INCREASE, RESULTING FROM A 1% DECREASE AND 5% INCREASE IN TRAFFIC FROM

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# MEXICAN STOCK EXCHANGE

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BUSINESS AND RESIDENTIAL CUSTOMERS, RESPECTIVELY. BILLED LONG DISTANCE MINUTES DURING THE FIRST QUARTER OF 2012 REMAINED AT SIMILAR LEVEL COMPARED TO THE SAME PERIOD IN 2011. DOMESTIC LONG DISTANCE MINUTES REPRESENTED 95% OF TOTAL TRAFFIC DURING THE QUARTER. FOR THE TWELVE MONTH PERIOD ENDED MARCH 31, 2012 AND EXCLUDING OUR LARGEST WHOLESALE CUSTOMER, OUTGOING LONG DISTANCE MINUTES AMOUNTED 1,908 MILLION, COMPARED TO 1,852 MILLION REGISTERED IN 2011, AN INCREASE OF 56 MILLION OF MINUTES, OR 3%, EXPLAINED BY INCREASED TRAFFIC FROM BUSINESS CUSTOMERS AND FURTHER PENETRATION OF COMMERCIAL OFFERS INCLUDING NATIONAL AND INTERNATIONAL LONG DISTANCE MINUTES WITHIN A MONTHLY RENT.

## OPERATING DATA

RGUS AND CUSTOMERS. AS OF MARCH 31, 2012, RGUS (REVENUE GENERATING UNITS) TOTALED 1,504 THOUSAND, AN INCREASE OF 8% OR 111 THOUSAND FROM THE SAME DATE IN 2011. DURING THE FIRST QUARTER OF 2012, NET ADDITIONAL RGUS TOTALED 28 THOUSAND, COMPARED TO 35 THOUSAND IN THE FIRST QUARTER OF 2011, ATTRIBUTABLE TO LOWER CONTRIBUTIONS FROM BOTH VOICE AND BROADBAND RGUS. AS OF MARCH 31, 2012, CUSTOMERS TOTALED 759 THOUSAND, A MARGINAL DECLINE OF 2 THOUSAND FROM THE SAME DATE IN 2011. TOTAL CUSTOMERS REMAINED UNCHANGED ON A SEQUENTIAL BASIS.

VOICE RGUS (LINES IN SERVICE). AS OF MARCH 31, 2012, LINES IN SERVICE TOTALED 1,040 THOUSAND, A ONE THOUSAND REDUCTION FROM THE SAME DATE IN 2011. DURING THE FIRST QUARTER OF 2012, GROSS ADDITIONAL LINES TOTALED 69 THOUSAND COMPARED TO ALSO 69 THOUSAND IN THE FIRST QUARTER OF 2011. DISCONNECTIONS IN THE FIRST QUARTER OF 2012 TOTALED 68 THOUSAND COMPARED TO 69 THOUSAND IN THE YEAR-EARLIER QUARTER. VOICE-ONLY CUSTOMERS IN LOW-ARPU OFFERS REPRESENTED THE MAJORITY OF DISCONNECTIONS DURING THE QUARTER. LINES-IN-SERVICE IN THE FIRST QUARTER OF 2012 INCREASED ONE THOUSAND, COMPARED TO 2 THOUSAND NET-DISCONNECTIONS IN THE SAME PERIOD OF 2011. AS OF MARCH 31, 2012, RESIDENTIAL LINES REPRESENTED 68% OF TOTAL LINES IN SERVICE.

BROADBAND RGUS (BROADBAND SUBSCRIBERS). BROADBAND SUBSCRIBERS INCREASED 32% YEAR-OVER-YEAR TOTALING 464 THOUSAND SUBS AS OF MARCH 31, 2012. DURING THE FIRST QUARTER OF 2012, BROADBAND SUBSCRIBERS INCREASED 27 THOUSAND COMPARED TO 36 THOUSAND IN THE SAME PERIOD OF 2011. CONTINUED POSITIVE RESPONSE FROM CUSTOMERS TO AXTEL'S "ACCESO UNIVERSAL" AND "AXTEL X-TREMO" SERVICES, OUR MARKETING EFFORTS, COMPETITIVE COMMERCIAL OFFERS AND THE RELIABILITY OF OUR NETWORK CONTRIBUTED TO INCREASE THE NUMBER OF BROADBAND SUBS IN THE FIRST QUARTER. BROADBAND PENETRATION REACHED 45% AT THE END OF THE FIRST QUARTER OF 2012, COMPARED TO 34% A YEAR AGO. AS OF THE END OF MARCH 2012, WIMAX BROADBAND SUBS REACHED 383 THOUSAND, COMPARED TO 313 THOUSAND A YEAR AGO, WHILE AXTEL X-TREMO, OR FTTH, CUSTOMERS TOTALED 61 THOUSAND.

INTERNET SUBSCRIBERS. AS OF MARCH 31, 2012, INTERNET SUBSCRIBERS TOTALED 471 THOUSAND, INCLUDING 8 THOUSAND DIAL-UP SUBSCRIBERS. AS OF MARCH 31, 2011, INTERNET SUBSCRIBERS REPRESENTED 360 THOUSAND, INCLUDING 8 THOUSAND DIAL-UP SUBS.

LINE EQUIVALENTS (E0 EQUIVALENTS). WE OFFER FROM 64 KILOBYTES PER SECOND ("KBPS") UP TO 100 MEGABYTES PER SECOND ("MBPS") DEDICATED DATA LINKS IN ALL OF OUR THIRTY-NINE EXISTING CITIES. WE ACCOUNT FOR DATA LINKS BY CONVERTING THEM TO E0 EQUIVALENTS IN ORDER TO STANDARDIZE OUR COMPARISONS VERSUS THE INDUSTRY. AS OF MARCH 31, 2012, LINE EQUIVALENTS TOTALED 558 THOUSAND.

## COST OF REVENUES AND OPERATING EXPENSES

COST OF REVENUES. FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2012, THE COST OF REVENUES REPRESENTED PS. 625 MILLION, A DECREASE OF PS. 134 MILLION, COMPARED WITH THE SAME PERIOD OF YEAR 2011, MAINLY EXPLAINED BY DECREASES OF (I) PS. 87 MILLION DUE TO LOWER

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FIXED-TO MOBILE COSTS RESULTING FROM A 49% DECREASE IN TRAFFIC VOLUME AND (II) PS. 70 MILLION DUE TO A 35% LOWER INTERNATIONAL TRAFFIC COSTS RESULTING FROM LOWER TERMINATION RATES; THIS COMPENSATED A PS. 60 MILLION INCREASE IN COSTS RELATED TO INTEGRATED SERVICES AND EQUIPMENT SALES. FOR THE TWELVE MONTH PERIOD ENDED MARCH 31, 2012, COST OF REVENUES REACHED PS. 2,665 MILLION, A DECREASE OF PS. 356 MILLION IN COMPARISON WITH YEAR 2011, MAINLY DUE TO DECREASES IN COSTS OF FIXED-TO MOBILE TRAFFIC AND DOMESTIC LONG DISTANCE CALLS COMPENSATING A 74% INCREASE IN COSTS RELATED TO INTEGRATED SERVICES.

GROSS PROFIT. GROSS PROFIT IS DEFINED AS REVENUES MINUS COST OF REVENUES. FOR THE FIRST QUARTER OF 2012, THE GROSS PROFIT ACCOUNTED FOR PS. 1,878 MILLION, A DECREASE OF PS. 18 MILLION COMPARED WITH THE SAME PERIOD IN YEAR 2011. THE GROSS PROFIT MARGIN INCREASED FROM 71.4% TO 75.0% YEAR-OVER-YEAR, INFLUENCED BY: (I) THE REDUCTION IN LONG-DISTANCE TERMINATION RATES WHICH AFFECTED POSITIVELY LONG-DISTANCE AND INTERNATIONAL TRAFFIC SEGMENTS, AND (II) BETTER MARGINS FROM BOTH MASS-MARKET AND ENTERPRISE CUSTOMERS' REVENUES. FOR THE TWELVE MONTH PERIOD ENDED MARCH 31, 2012, OUR GROSS PROFIT TOTALED PS. 8,012 MILLION, COMPARED TO PS. 7,819 MILLION RECORDED IN YEAR 2011, AN INCREASE OF PS. 193 MILLION.

OPERATING EXPENSES. IN THE FIRST QUARTER OF YEAR 2012, OPERATING EXPENSES TOTALED PS. 1,119 MILLION, PS. 45 MILLION HIGHER THAN THE PS. 1,074 MILLION RECORDED IN THE SAME PERIOD IN YEAR 2011, MOSTLY EXPLAINED BY PS. 20 MILLION AND PS. 13 MILLION INCREASES IN RENTS AND MAINTENANCE EXPENSES RELATED TO A LARGER NUMBER OF SITES AND INFLATION ADJUSTMENTS. FOR THE TWELVE MONTH PERIOD ENDED MARCH 30, 2012, OPERATING EXPENSES TOTALED PS. 4,506 MILLION, COMING FROM PS. 4,451 MILLION IN THE SAME PERIOD IN 2011. PERSONNEL REPRESENTED 45% OF TOTAL OPERATING EXPENSES IN THE TWELVE MONTH PERIOD ENDED MARCH 31, 2012.

### ADJUSTED EBITDA, D&A AND OPERATING INCOME

ADJUSTED EBITDA(5). THE ADJUSTED EBITDA TOTALED PS. 759 MILLION FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2012, COMPARED TO PS. 821 MILLION FOR THE SAME PERIOD IN 2011. AS A PERCENTAGE OF TOTAL REVENUES, ADJUSTED EBITDA REPRESENTED 30.3% IN THE FIRST QUARTER OF 2012, 62 BPS LOWER THAN THE MARGIN RECORDED IN THE YEAR-EARLIER QUARTER. FOR THE TWELVE-MONTH PERIOD ENDED MARCH 31, 2012, ADJUSTED EBITDA AMOUNTED TO PS. 3,506 MILLION, COMPARED TO PS. 3,368 MILLION IN YEAR 2011.

DEPRECIATION AND AMORTIZATION(10). DEPRECIATION AND AMORTIZATION TOTALED PS. 752 MILLION IN THE THREE-MONTH PERIOD ENDING ON MARCH 31, 2012 COMPARED TO PS. 787 MILLION FOR THE SAME PERIOD IN YEAR 2011. DEPRECIATION AND AMORTIZATION FOR THE TWELVE-MONTH PERIOD ENDED MARCH 31, 2012 REACHED PS. 3,068 MILLION, FROM PS. 3,071 MILLION IN THE SAME PERIOD IN YEAR 2011, AN IMMATERIAL INCREASE OF PS. 3 MILLION.

OPERATING INCOME (LOSS). IN THE THREE-MONTH PERIOD ENDED MARCH 31, 2012, THE COMPANY RECORDED AN OPERATING INCOME OF PS. 9 MILLION COMPARED TO AN OPERATING INCOME OF PS. 63 MILLION REGISTERED IN THE SAME PERIOD IN YEAR 2011. FOR THE TWELVE MONTH PERIOD ENDED MARCH 31, 2012 OUR OPERATING LOSS REACHED PS. 8 MILLION WHEN COMPARED TO THE OPERATING INCOME OF PS. 397 MILLION IN THE SAME PERIOD OF YEAR 2011, A VARIATION OF PS. 404 MILLION, MOSTLY EXPLAINED BY PS. 395 MILLION OF NON-RECURRENT OTHER EXPENSES RECORDED IN IN THE FOURTH QUARTER OF 2011. THESE INCLUDED A PS. 229 MILLION WRITE-OFF OF OBSOLETE EQUIPMENT, A PS. 64 MILLION PROVISION FOR ORGANIZATION RESTRUCTURING AND A PS. 37 MILLION CHARGE AGAINST OTHER ASSETS RELATED FOR MINORITY-PARTICIPATION INVESTMENTS IN TELECOM-RELATED COMPANIES IN THE U.S.

CFR, INDEBTEDNESS, CASH, INVESTMENTS AND DERIVATIVE INSTRUMENTS

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COMPREHENSIVE FINANCIAL RESULT. NET INTEREST EXPENSE FOR THE FIRST QUARTER 2012 INCREASED PS. 25 MILLION VIS-À-VIS FOURTH QUARTER 2011 DUE TO A LARGER DEBT BALANCE AND FEES RELATED TO THE COMMITTED TRANCHE OF THE SYNDICATED BANK FACILITY. DURING THE FIRST QUARTER 2012, A 9% PESO APPRECIATION AGAINST THE U.S. DOLLAR GENERATED A PS. 969 MILLION FX GAIN, COMPARED TO AN FX GAIN OF PS. 311 MILLION RELATED TO A 3% PESO APPRECIATION RECORDED IN THE FIRST QUARTER OF 2011. CONCERNING VARIATIONS IN THE FAIR VALUE OF FINANCIAL INSTRUMENTS, THESE ARE PARTIALLY EXPLAINED BY 4% AND 2% DECLINES IN THE PRICE OF AXTELCPO DURING THE FIRST QUARTERS OF 2012 AND 2011, RESPECTIVELY, WHICH AFFECTED THE VALUATION OF AXTEL'S POSITION HELD IN ITS OWN STOCK THROUGH THE ZERO-STRIKE-CALLS INSTRUMENTS. THE PS. 1,708 MILLION COMPREHENSIVE FINANCIAL LOSS FOR YEAR ENDED IN MARCH 2012, COMPARED TO A PS. 634 MILLION COMPREHENSIVE FINANCIAL LOSS FOR YEAR ENDED IN MARCH 2011, IS MAINLY EXPLAINED BY A 7% DEPRECIATION OF THE MEXICAN PESO AGAINST THE U.S. DOLLAR IN THE 2012 PERIOD, COMPARED TO A 4% APPRECIATION IN THE 2011 PERIOD.

DEBT. AT THE END OF THE FIRST QUARTER OF 2012, TOTAL DEBT INCREASED PS. 1,322 MILLION IN COMPARISON WITH THE SAME DATE IN 2011, EXPLAINED BY (I) A PS. 397 MILLION NET INCREASE IN BANK DEBT RELATED TO THE SYNDICATED BANK FACILITY OBTAINED IN NOVEMBER 2011, (II) AN INCREASE OF PS. 237 MILLION IN LEASES AND FINANCIAL OBLIGATIONS AND (III) A PS. 694 MILLION NON-CASH INCREASE CAUSED BY THE 7% DEPRECIATION OF THE MEXICAN PESO.

CASH. AS OF THE END OF THE FIRST QUARTER OF 2012, OUR CASH AND EQUIVALENTS BALANCE TOTALED PS. 526 MILLION (EQUIVALENT TO \$41 MILLION), COMPARED TO PS. 839 MILLION A YEAR AGO. INTEREST PAYMENTS ON BOTH SENIOR NOTES PROGRAMS AND A REDUCTION IN ACCOUNT PAYABLES RELATED TO A LOWER CAPITAL EXPENDITURES LEVEL COMBINED WITH AN INCREASE IN ACCOUNT RECEIVABLES PRIMARILY FROM FEDERAL GOVERNMENT ENTITIES EXPLAIN MOST OF THE VARIATION IN CASH DURING THE QUARTER. THIRTY-THREE PERCENT OF THE CASH BALANCE IS MAINTAINED IN DOLLARS, THE REST IN PESOS.

CAPITAL INVESTMENTS. IN THE FIRST QUARTER OF 2012, CAPITAL INVESTMENTS TOTALED PS. 502 MILLION, OR \$39 MILLION, COMPARED TO PS. 749 MILLION, OR \$62 MILLION, IN THE YEAR-EARLIER QUARTER. ACCUMULATED FOR THE TWELVE-MONTH PERIOD ENDED MARCH 31, 2012, CAPITAL INVESTMENTS TOTALED PS. 2,286 MILLION, OR \$181 MILLION, COMPARED TO PS. 3,417 MILLION, OR \$274 MILLION, IN YEAR 2011.

OTHER INVESTMENTS. AS OF MARCH 31, 2012, THE COMPANY MAINTAINED AN ECONOMIC POSITION EQUIVALENT TO 30.4 MILLION AXTELCPOS IN ZSC.

DERIVATIVE INSTRUMENTS. THE FOLLOWING TABLE SUMMARIZES THE COMPANY'S DERIVATIVES POSITION AS OF MARCH 31, 2012.

	AXTEL RECEIVES	AXTEL PAYS	OTHER
INTEREST-ONLY CROSS-CURRENCY SWAP (MXN/US\$)			
NOTIONAL	US\$275 MILLION	PS. 3,408 MILLION	
INTEREST	7.63% SEMI-ANNUAL	8.27% SEMI-ANNUAL	
PRINCIPAL PAYMENTS	N.A.	N.A.	
DATES			AUG. 2012 - AUG. 2014
ESTIMATED FAIR VALUE			PS. (4.4) MILLION
INTEREST-ONLY CROSS-CURRENCY SWAP (MXN/US\$)			
NOTIONAL	US\$100 MILLION	PS. 1,280 MILLION	
INTEREST	7.63% SEMI-ANNUAL	8.99% SEMI-ANNUAL	
PRINCIPAL PAYMENTS	N.A.	N.A.	
EXPIRATION DATE			FEB. 2014 - AUG. 2015
ESTIMATED FAIR VALUE			PS. (5.1) MILLION

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INTEREST-ONLY CROSS-CURRENCY SWAP (MXN/US\$)  
 NOTIONAL US\$490 MILLION PS. 6,364 MILLION  
 INTEREST 9.0% SEMI-ANNUAL 9.56% SEMI-ANNUAL (AVG.)  
 PRINCIPAL PAYMENTS N.A. N.A.  
 EXPIRATION DATE SEPT. 2014  
 ESTIMATED FAIR VALUE PS. (43.3) MILLION

INTEREST-ONLY CROSS-CURRENCY SWAP (MXN/US\$)  
 NOTIONAL US\$200 MILLION PS. 2,568 MILLION  
 INTEREST 9.0% SEMI - ANNUAL 9.85% SEMI - ANNUAL (AVG.)  
 PRINCIPAL PAYMENTS N.A. N.A.  
 EXPIRATION DATE SEPT. 2015  
 ESTIMATED FAIR VALUE PS. (12.1) MILLION

INTEREST-ONLY CROSS-CURRENCY SWAP (MXN/US\$)  
 NOTIONAL US\$44 MILLION PS. 614 MILLION  
 INTEREST LIBOR + 4% QUARTERLY 5.06% QUARTERLY  
 PRINCIPAL PAYMENTS N.A. N.A.  
 EXPIRATION DATE NOV. 2012  
 ESTIMATED FAIR VALUE PS. (3.8) MILLION

FULL CROSS-CURRENCY SWAP (MXN/US\$) - PRINCIPAL INCLUDED  
 NOTIONAL US\$44 MILLION PS. 593MILLION  
 INTEREST LIBOR + 4% QUARTERLY 11.51% QUARTERLY  
 PRINCIPAL PAYMENTS N.A. N.A.  
 EXPIRATION DATE NOV. 2012 - NOV. 2015  
 ESTIMATED FAIR VALUE PS. (38) MILLION

ZERO-STRIKE EQUITY CALL OPTION  
 NOTIONAL 30.4 MILLION AXTELCPO STRIKE PRICE: 30.4 MILLION AXTELCPO  
 VALUE 30.4 MILLION AXTELCPO STRIKE PRICE: 30.4 MILLION AXTELCPO  
 TIMES CPO'S MARKET PRICE 1 PER CPO  
 SETTLEMENT IN CASH  
 EXPIRATION DATE JULY 2012  
 VALUATION PS. 130.4 MILLION

### FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2012 COMPARED WITH THREE MONTHS ENDED MARCH 31, 2011

#### ASSETS

AS OF MARCH 31, 2012, TOTAL ASSETS SUM PS. 20,798 MILLION COMPARED TO PS. 21,577 MILLION AS OF MARCH 31, 2011, A DECLINE OF PS. 229MILLION.

CASH AND EQUIVALENTS. AS OF MARCH 31, 2012, WE HAD CASH AND CASH EQUIVALENTS OF PS. 461 MILLION COMPARED TO PS. 781 MILLION IN THE SAME DATE OF YEAR 2011, A DECREASE OF PS. 320 MILLION OR 41%.

ACCOUNTS RECEIVABLE. AS OF MARCH 31, 2012, THE ACCOUNTS RECEIVABLE WERE PS. 2,191 MILLION COMPARED WITH PS. 2,055 MILLION IN THE SAME DATE OF 2011, AN INCREASE OF PS. 136MILLION.

PROPERTY, PLANT AND EQUIPMENT, NET. AS OF MARCH 31, 2012, THE NET OF DEPRECIATION VALUE



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OF PROPERTY, PLANT AND EQUIPMENT WAS PS. 15,199 MILLION COMPARED WITH PS. 15,761 MILLION AS OF MARCH 31, 2011, A DECREASE OF PS. 562 MILLION. THE PROPERTY, PLANT AND EQUIPMENT WITHOUT ADJUSTING FOR THE ACCUMULATED DEPRECIATION, WAS PS. 34,951 MILLION AND PS. 33,113 MILLION AS OF MARCH 31, 2012 AND MARCH 31, 2011, RESPECTIVELY. THE INCREASE IN PROPERTY, PLANT AND EQUIPMENT IS DUE TO A HIGHER INVESTMENT DURING THIS PERIOD.

### LIABILITIES

TOTAL LIABILITIES WERE PS. 14,671 MILLION AS OF MARCH 31, 2012 COMPARED TO PS. 13,820 MILLION AS OF MARCH 31, 2011, AN INCREASE OF PS. 851 MILLION.

ACCOUNTS PAYABLE & ACCRUED EXPENSES. ON MARCH 31, 2012, THE ACCOUNTS PAYABLE AND ACCRUED EXPENSES WERE PS. 2,102 MILLION COMPARED WITH PS. 2,457 MILLION ON MARCH 31, 2011, A DECREASE OF PS. 354 MILLION OR 14%.

### STOCKHOLDERS EQUITY

ON MARCH 31, 2012, THE STOCKHOLDERS EQUITY OF THE COMPANY WAS PS. 6,127 MILLION COMPARED WITH PS. 7,757 MILLION AS OF MARCH 31, 2011, A DECREASE OF PS. 1,630 MILLION, OR 21%. THE CAPITAL STOCK REMAINED UNCHANGED AT PS. 6,626 MILLION AS OF MARCH 31, 2012 AND 2011.

### LIQUIDITY AND CAPITAL RESOURCES

HISTORICALLY WE HAVE RELIED PRIMARILY ON VENDOR FINANCING, THE PROCEEDS OF THE SALE OF SECURITIES, INTERNAL CASH FROM OPERATIONS AND THE PROCEEDS FROM BANK DEBT TO FUND OUR OPERATIONS, CAPITAL EXPENDITURES AND WORKING CAPITAL REQUIREMENTS. ALTHOUGH WE BELIEVE THAT WE WOULD BE ABLE TO MEET OUR DEBT SERVICE OBLIGATIONS AND FUND OUR OPERATING REQUIREMENTS IN THE FUTURE WITH CASH FLOW FROM OPERATIONS, WE MAY SEEK ADDITIONAL FINANCING WITH COMMERCIAL BANKS OR IN THE CAPITAL MARKETS FROM TIME TO TIME DEPENDING ON MARKET CONDITIONS AND OUR FINANCIAL REQUIREMENTS. WE WILL CONTINUE TO FOCUS ON INVESTMENTS IN PROPERTY, SYSTEMS AND INFRASTRUCTURE AND WORKING CAPITAL MANAGEMENT, INCLUDING THE COLLECTION OF ACCOUNTS RECEIVABLE AND MANAGEMENT OF ACCOUNTS PAYABLE.

### CASH FLOW STATEMENT

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2012 COMPARED WITH THE THREE-MONTH PERIOD ENDED MARCH 31, 2011

NET RESOURCES PROVIDED BY OPERATING ACTIVITIES WERE PS. 1,121 MILLION FOR THE THREE-MONTH PERIOD ENDED ON MARCH 31, 2012 COMPARED TO PS. 1,071 MILLION RECORDED IN THE SAME PERIOD OF YEAR 2011.

NET RESOURCES USED IN INVESTING ACTIVITIES WERE PS. (501) MILLION FOR THE THREE-MONTH PERIOD ENDED ON MARCH 31, 2012 COMPARED TO PS. (738) MILLION RECORDED IN THE SAME PERIOD OF YEAR 2011. THESE FLOWS PRIMARILY REFLECT INVESTMENTS IN FIXED ASSETS OF PS. (502) MILLION AND PS. (749) MILLION, RESPECTIVELY.

NET RESOURCES (USED IN) PROVIDED BY FINANCING ACTIVITIES WERE PS. (564) MILLION AND PS. (492) MILLION FOR THE THREE-MONTH PERIODS ENDED ON MARCH 31, 2012 AND 2011, RESPECTIVELY.

AS OF MARCH 31, 2012, THE RATIOS OF NET DEBT TO ADJUSTED EBITDA AND INTEREST COVERAGE OF THE COMPANY WERE 3.1X AND 3.4X, RESPECTIVELY. AS MARCH 31, 2011 THE RATIO OF NET DEBT TO ADJUSTED EBITDA AND INTEREST COVERAGE, WAS 2.8X AND 3.5X, RESPECTIVELY.

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SINCE THE BEGINNING OF OPERATIONS OF THE COMPANY, AXTEL HAS INVESTED APPROXIMATELY PS.32BILLION IN INFRASTRUCTURE. THE COMPANY EXPECTS TO DO MORE INVESTMENTS IN THE FUTURE, ACCORDING TO THE EXPANSION OF THE NETWORK IN OTHER GEOGRAPHICAL AREAS OF MEXICO IN ORDER TO GAIN MARKET AND TO MAINTAIN ITS CURRENT INFRASTRUCTURE AND NETWORK.

## CASH FLOW STATEMENT

FOR THE TWELVE MONTHS ENDED MARCH 31, 2012 COMPARED WITH TWELVE MONTHS ENDED MARCH 31, 2011

NET RESOURCES PROVIDED BY OPERATING ACTIVITIES WERE PS. 2,259 MILLION FOR THE TWELVE-MONTH PERIOD ENDED ON MARCH 31, 2012 COMPARED TO PS. 4,251 MILLION RECORDED IN THE SAME PERIOD OF YEAR 2011.

NET RESOURCES USED IN INVESTING ACTIVITIES WERE PS. (2,297) MILLION FOR THE TWELVE-MONTH PERIOD ENDED ON MARCH 31, 2012 COMPARED TO PS. (3,480) MILLION RECORDED IN THE SAME PERIOD OF YEAR 2011. THESE FLOWS PRIMARILY REFLECT INVESTMENTS IN FIXED ASSETS OF PS. (2,286) MILLION AND PS. (3,417) MILLION, RESPECTIVELY.

NET RESOURCES (USED IN) PROVIDED BY FINANCING ACTIVITIES WERE PS. (900) MILLION AND PS. 972 MILLION FOR THE TWELVE-MONTH PERIOD ENDED ON MARCH 31, 2012 AND 2011, RESPECTIVELY.

## OTHER IMPORTANT INFORMATION

1)WE ARE PRESENTING FINANCIAL INFORMATION BASED ON INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) IN NOMINAL PESOS FOR THE FOLLOWING PERIODS:

- CONSOLIDATED INCOME STATEMENT INFORMATION FOR THE THREE-MONTH PERIODS ENDING ON MARCH 31, 2012 AND 2011; THREE-MONTH PERIOD ENDING ON DECEMBER 31, 2011; AND TWELVE-MONTH PERIOD ENDING ON MARCH 31, 2012, AND

- BALANCE SHEET INFORMATION AS OF MARCH 31, 2012 AND 2011; AND DECEMBER 31, 2011.

FOR ILLUSTRATIVE PURPOSES ONLY, WE ARE PRESENTING INFORMATION FOR THE TWELVE-MONTH PERIOD ENDING ON MARCH 31, 2011 WHICH WAS PREPARED BASED ON MEXICAN FINANCIAL REPORTING STANDARDS (FRS) IN NOMINAL PESOS.

2)REVENUES ARE DERIVED FROM:

I.LOCAL SERVICES. WE GENERATE REVENUE BY ENABLING OUR CUSTOMERS TO ORIGINATE AND RECEIVE CALLS WITHIN A DEFINED LOCAL SERVICE AREA AND BY PROVIDING OFFERS WITH INTERNET ACCESS INCLUDED IN THE MONTHLY RENT. CUSTOMERS ARE CHARGED A FLAT MONTHLY FEE FOR BASIC SERVICE, A PER CALL FEE FOR LOCAL CALLS ("MEASURED SERVICE"), A PER MINUTE USAGE FEE FOR CALLS COMPLETED ON A CELLULAR LINE ("CALLING PARTY PAYS," OR CPP CALLS) AND VALUE ADDED SERVICES. THE COMPANY ALSO PROVIDE CUSTOMERS WITH COMMERCIAL OFFERS INCLUDING LIMITED OR UNLIMITED LOCAL CALLS, MINUTES OF CPP CALLS, MINUTES OF LONG DISTANCE, VALUE ADDED SERVICES AND INTERNET ACCESS FOR A FLAT MONTHLY RENT.

II.LONG DISTANCE SERVICES. WE GENERATE REVENUES BY PROVIDING LONG DISTANCE SERVICES (DOMESTIC AND INTERNATIONAL) FOR OUR CUSTOMERS' COMPLETED CALLS FROM AXTEL LINES.

III.DATA & NETWORK. WE GENERATE REVENUES BY PROVIDING DATA, INTERNET ACCESS AND NETWORK SERVICES, LIKE VIRTUAL PRIVATE NETWORKS AND PRIVATE LINES.

IV.INTERNATIONAL TRAFFIC. WE GENERATE REVENUES TERMINATING INTERNATIONAL TRAFFIC FROM FOREIGN CARRIERS.

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V. OTHER SERVICES. INCLUDE AMONG OTHERS, ACTIVATION FEES, CUSTOMER PREMISES EQUIPMENT ('CPE') SALES AND REVENUES GENERATED FROM INTEGRATED TELECOMMUNICATIONS SERVICES PROVIDED TO CORPORATE CUSTOMERS, FINANCIAL INSTITUTIONS AND GOVERNMENT ENTITIES.

3) COST OF REVENUES INCLUDE EXPENSES RELATED TO THE TERMINATION OF OUR CUSTOMERS' CELLULAR AND LONG DISTANCE CALLS IN OTHER CARRIERS' NETWORKS, AS WELL AS EXPENSES RELATED TO BILLING, PAYMENT PROCESSING, OPERATOR SERVICES AND OUR LEASING OF PRIVATE CIRCUIT LINKS.

4) OPERATING EXPENSES INCLUDE COSTS INCURRED IN CONNECTION WITH GENERAL AND ADMINISTRATIVE MATTERS WHICH INCORPORATE COMPENSATION AND BENEFITS, THE COSTS OF LEASING LAND RELATED TO OUR OPERATIONS AND COSTS ASSOCIATED WITH SALES AND MARKETING AND THE MAINTENANCE OF OUR NETWORK.

5) ADJUSTED EBITDA IS DEFINED AS NET INCOME PLUS INTEREST, TAXES, DEPRECIATION AND AMORTIZATION, AND FURTHER ADJUSTED FOR UNUSUAL OR NON-RECURRING ITEMS. FOR ADDITIONAL DETAIL ON THE ADJUSTED EBITDA RECONCILIATION, GO TO AXTEL'S WEB SITE AT WWW.AXTEL.COM.MX

6) EARNINGS PER CPO ARE CALCULATED DIVIDING THE NET INCOME BY THE AVERAGE NUMBER OF SERIES A AND SERIES B SHARES OUTSTANDING DURING THE PERIOD DIVIDED BY SEVEN. THE NUMBER OF OUTSTANDING SERIES A AND SERIES B SHARES WAS 96,636,627 AND 8,672,716,596, RESPECTIVELY, AS OF MARCH 31, 2012.

7) NET DEBT TO ADJUSTED EBITDA: THE FIGURE COMES FROM DIVIDING THE NET DEBT, INCLUDING CASH AND MARK-TO-MARKET OF DERIVATIVE INSTRUMENTS, AT THE END OF THE PERIOD BY THE RESPECTIVE ADJUSTED EBITDA.

8) REVENUE GENERATING UNIT, OR RGU, REPRESENTS INDIVIDUAL SERVICE SUBSCRIBER WHO GENERATES RECURRING REVENUE FOR THE COMPANY. TOTAL RGUS INCLUDE THE SUM OF ALL LINES IN SERVICE AND BROADBAND SERVICE CUSTOMERS OR SUBSCRIBERS.

9) BREAKDOWN OF AXTEL'S REVENUES INCLUDING ITS LARGEST WHOLESALE CUSTOMER:

MILLION PESOS	Q1 2012	Q1 2011	Q4 2011	LTM	LTM
				MAR-12	MAR-11
LOCAL	917	1,095	953	3,982	4,494
LONG DISTANCE	303	293	323	1,234	1,169
DATA & NETWORK	685	656	668	2,624	2,552
INT'L. TRAFFIC	201	270	335	1,177	1,206
OTHER	396	341	490	1,659	1,419
	2,503	2,655	2,768	10,677	10,840

10) 802.16E WIMAX IS AN IP-BASED VOICE AND DATA WIRELESS TECHNOLOGY DESIGNED TO DELIVER VOICE AND DATA SOLUTIONS, UNDER FIXED, PORTABLE, NOMADIC AND MOBILE ENVIRONMENTS, TO RESIDENTIAL AND BUSINESS CUSTOMERS.

11) DEPRECIATION AND AMORTIZATION INCLUDES DEPRECIATION OF ALL COMMUNICATIONS NETWORK AND EQUIPMENT AND AMORTIZATION OF PRE-OPERATING EXPENSES AND COST OF SPECTRUM LICENSES, AMONG OTHERS.

ABOUT AXTEL

AXTEL IS A MEXICAN TELECOMMUNICATIONS COMPANY THAT PROVIDES LOCAL AND LONG DISTANCE TELEPHONY, BROADBAND INTERNET, DATA AND BUILT-TO-SUIT COMMUNICATIONS SOLUTIONS IN 39

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CITIES AND LONG DISTANCE CONNECTIVITY TO BUSINESS AND RESIDENTIAL CUSTOMERS IN OVER 200 CITIES. AXTEL PROVIDES TELECOMMUNICATIONS SERVICES USING A SUITE OF TECHNOLOGIES INCLUDING FWA, WIMAX, COPPER, FIBER OPTIC, POINT TO MULTIPOINT RADIOS AND TRADITIONAL POINT TO POINT MICROWAVE ACCESS, AMONG OTHERS.

AXTELCPO TRADES ON THE MEXICAN STOCK EXCHANGE AND IS PART OF THE IPC INDEX. AXTEL'S AMERICAN DEPOSITARY SHARES ARE ELIGIBLE FOR TRADING IN THE PORTAL MARKET, A SUBSIDIARY OF THE NASDAQ STOCK MARKET, INC.

VISIT AXTEL'S INVESTOR RELATIONS CENTER ON [WWW.AXTEL.COM.MX](http://WWW.AXTEL.COM.MX)

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## (1) FINANCIAL STATEMENT PRESENTATION

THE NATIONAL BANKING AND SECURITIES COMMISSION (CNBV) REQUIRE CERTAIN ENTITIES THAT DISCLOSE THEIR FINANCIAL INFORMATION TO THE PUBLIC THROUGH THE MEXICAN STOCK EXCHANGE, THAT IN 2012, THEY MUST PREPARE AND DISCLOSE THEIR FINANCIAL INFORMATION ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS), ISSUED BY THE INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB). THE ACCOMPANYING CONSOLIDATED FINANCIAL STATEMENTS HAVE BEEN PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS IN EFFECT AS OF THE BALANCE SHEET DATE.

ACCOUNTING POLICIES APPLIED IN THE PREPARATION OF THE ACCOMPANYING UNAUDITED FINANCIAL STATEMENTS HAVE BEEN PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS OF THE BALANCE SHEET DATE. STANDARDS AND INTERPRETATIONS THAT WILL BE APPLICABLE AS OF DECEMBER 31, 2012, INCLUDING THOSE THAT MAY BE APPLIED OPTIONALLY, ARE NOT KNOWN WITH CERTAINTY AT THE TIME OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND COULD RESULT IN A MODIFICATION OF THE REPORTED CONSOLIDATED INFORMATION, INCLUDING THE TRANSITION ADJUSTMENTS.

THE ACCOMPANYING FINANCIAL STATEMENTS ARE PRESENTED IN REPORTING CURRENCY THOUSANDS OF MEXICAN PESOS, WHICH IS EQUAL TO THE RECORDING CURRENCY AND FUNCTIONAL CURRENCY.

## (2) DESCRIPTION OF BUSINESS AND SIGNIFICANT TRANSACTIONS

### DESCRIPTION OF BUSINESS

AXTEL, S.A.B. DE C.V. AND SUBSIDIARIES (THE COMPANY OR AXTEL) IS A MEXICAN CORPORATION ENGAGED IN OPERATING AND/OR EXPLOITING A PUBLIC TELECOMMUNICATION NETWORK TO PROVIDE VOICE, SOUND, DATA, TEXT, AND IMAGE CONDUCTING SERVICES, AND LOCAL, DOMESTIC AND INTERNATIONAL LONG-DISTANCE CALLS. A CONCESSION IS REQUIRED TO PROVIDE THESE SERVICES AND CARRY OUT THE COMPANY'S ACTIVITY. IN JUNE 1996, THE COMPANY OBTAINED A CONCESSION FROM THE MEXICAN FEDERAL GOVERNMENT TO INSTALL, OPERATE AND EXPLOIT PUBLIC TELECOMMUNICATION NETWORKS FOR AN INITIAL PERIOD OF THIRTY YEARS.

### SIGNIFICANT TRANSACTIONS

- ON NOVEMBER 17, 2011, THE COMPANY CLOSED A SYNDICATED LOAN WITH BANCO NACIONAL DE MEXICO, SA, A MEMBER OF GRUPO FINANCIERO BANAMEX; BANCO MERCANTIL DEL NORTE SA, INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO BANORTE; CREDIT SUISSE AG, CAYMAN ISLANDS BRANCH; ING BANK NV, DUBLIN BRANCH AND STANDARD BANK PLC. THE TOTAL AMOUNT OF THE LINE IS US\$ 100 MILLION WITH A FOUR YEAR PERIOD, TWO YEAR GRACE PERIOD OF PRINCIPAL AND MADE UP OF A FUNDED AMOUNT AND A COMMITTED SHORT TERM REVOLVING FACILITY. THE LOAN IS SECURED BY THE ACCOUNTS RECEIVABLE OF CERTAIN CORPORATE CUSTOMERS OF THE COMPANY. AS OF DECEMBER 31, 2011 US\$ 44.5 MILLION AND PS. 216.9 MILLION HAVE BEEN FUNDED, WHILE THE REVOLVING FACILITY HAS NOT BEEN DISBURSED. THIS LOAN CONTEMPLATES A VARIABLE INTEREST RATE, GOING FROM LIBOR+3.0% TO LIBOR+4.5% IN DOLLARS AND A TIEE+3.0% TO TIEE+4.5% IN PESOS, ACCORDING TO THE LEVERAGE OF THE COMPANY. INTEREST PAYMENTS ARE ON A QUARTERLY BASIS AND THE PURPOSE OF THE LOAN IS TO STRENGTHEN LIQUIDITY, CAPITAL INVESTMENTS, DEBT REPAYMENT AND OTHER CORPORATE GENERAL PURPOSES.

- IN ORDER TO IMPLEMENT THE STRATEGIC PLANS, THE COMPANY IS RESTRUCTURING SOME OF THE OPERATIONAL AREAS. THE COSTS OF RESTRUCTURING, WHICH CONSISTS OF COMPENSATION AND EMPLOYEE SEVERANCE PAYMENTS AMOUNTED TO PS. 63,500 AND IS INCLUDED IN THE STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2011, AS PART OF THE OTHER EXPENSES.

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## (3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS IN CONFORMITY WITH FINANCIAL REPORTING STANDARDS REQUIRES MANAGEMENT OF THE COMPANY TO MAKE A NUMBER OF ESTIMATES AND ASSUMPTIONS THAT AFFECT THE REPORTED AMOUNTS OF ASSETS AND LIABILITIES, THE DISCLOSURE OF CONTINGENT ASSETS AND LIABILITIES AT THE DATE OF THE CONSOLIDATED FINANCIAL STATEMENTS, AND THE REPORTED AMOUNTS OF REVENUES AND EXPENSES DURING THE REPORTING PERIOD. SIGNIFICANT ITEMS SUBJECT TO SUCH ESTIMATES AND ASSUMPTIONS INCLUDE THE CARRYING AMOUNT OF PROPERTY, SYSTEMS AND EQUIPMENT, ASSET RETIREMENT OBLIGATIONS, VALUATION ALLOWANCES FOR RECEIVABLES, INVENTORIES AND DEFERRED INCOME TAX ASSETS; VALUATION OF DERIVATIVE INSTRUMENTS; AND ASSETS AND OBLIGATIONS RELATED TO EMPLOYEE BENEFITS. ACTUAL RESULTS COULD DIFFER FROM THOSE ESTIMATES AND ASSUMPTIONS.

FOR PURPOSES OF DISCLOSURE IN THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, REFERENCES TO PESOS OR "PS.", ARE TO MEXICAN PESOS; LIKewise, REFERENCES TO DOLLARS OR U.S. \$, OR USD ARE TO DOLLARS OF THE UNITED STATES OF AMERICA.

SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES APPLIED IN THE PREPARATION OF THE ACCOMPANYING FINANCIAL STATEMENTS FOLLOW:

### (A) PRINCIPLES OF CONSOLIDATION

THE CONSOLIDATED FINANCIAL STATEMENTS INCLUDE THE FINANCIAL STATEMENTS OF AXTEL AND ITS SUBSIDIARIES. ALL SIGNIFICANT BALANCES AND INTERCOMPANY TRANSACTIONS HAVE BEEN ELIMINATED IN THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS. THE CONSOLIDATION WAS BASED ON THE UNAUDITED FINANCIAL STATEMENTS OF THE ISSUING COMPANIES AS OF MARCH 31, 2012, DECEMBER 31, 2011 AND JANUARY 1, 2011, WHICH HAVE BEEN PREPARED IN ACCORDANCE WITH THE IFRS.

### (B) CASH AND CASH EQUIVALENTS

CASH EQUIVALENTS CONSIST OF OVERNIGHT REPURCHASE AGREEMENTS AND CERTIFICATES OF DEPOSIT WITH AN INITIAL TERM OF LESS THAN THREE MONTHS. CASH EQUIVALENTS ARE CARRIED AT THE LOWER OF ACQUISITION COST PLUS ACCRUED INTEREST AS OF THE MOST RECENT STATEMENT OF FINANCIAL POSITION DATE AND NET ESTIMATED REALIZABLE VALUE. INTEREST AND FOREIGN CURRENCY EXCHANGE FLUCTUATION ARE INCLUDED IN THE STATEMENTS OF OPERATIONS AS PART OF THE COMPREHENSIVE FINANCING RESULT.

### (C) TRADE ACCOUNTS RECEIVABLE

TRADE ACCOUNTS RECEIVABLE INCLUDES THE AMOUNT BILLED TO CUSTOMERS AND A PROVISION FOR SERVICES RENDERED AT THE BALANCE SHEET DATE BUT NOT BILLED. AMOUNTS BILLED ARE RECORDED AT THE INVOICED AMOUNT AND DO NOT BEAR INTEREST. THE ALLOWANCE FOR DOUBTFUL ACCOUNTS IS THE COMPANY'S BEST ESTIMATE OF THE AMOUNT OF PROBABLE CREDIT LOSSES IN THE COMPANY'S EXISTING ACCOUNTS RECEIVABLE. THE COMPANY REVIEWS ITS ALLOWANCE FOR DOUBTFUL ACCOUNTS ON A MONTHLY BASIS. ACCOUNT BALANCES ARE CHARGED TO THE ALLOWANCE AFTER ALL MEANS OF COLLECTION HAVE BEEN EXHAUSTED AND THE POTENTIAL RECOVERY IS CONSIDERED REMOTE. ADDITIONALLY, THE REALIZABLE VALUE OF LONG-TERM RECEIVABLES IS DETERMINED CONSIDERING THEIR PRESENT VALUE.

### (D) INVESTMENT IN SHARES OF ASSOCIATED COMPANY AND OTHER PERMANENT INVESTMENTS

PERMANENT INVESTMENT IN THE ASSOCIATED COMPANY IN WHICH THE COMPANY HOLDS 50% OF ITS CAPITAL STOCK, ARE ACCOUNTED FOR BY THE EQUITY METHOD BASED ON THE FINANCIAL STATEMENTS.

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OTHER PERMANENT INVESTMENTS IN WHICH THE COMPANY HOLDS BETWEEN 10% AND 20% OF THE INVESTEE'S CAPITAL STOCK ARE RECORDED AT COST.

## (E) INVENTORIES AND COST OF SALES

INVENTORIES ARE CARRIED AT THE LOWER OF HISTORICAL COST AND NET REALIZABLE VALUE. COST OF REVENUES INCLUDE EXPENSES RELATED TO THE TERMINATION OF CUSTOMERS' CELLULAR AND LONG-DISTANCE CALLS IN OTHER CARRIERS' NETWORKS, AS WELL AS EXPENSES RELATED TO BILLING, PAYMENT PROCESSING, OPERATOR SERVICES AND OUR LEASING OF PRIVATE CIRCUIT LINKS.

## (F) PROPERTY, SYSTEMS AND EQUIPMENT

PROPERTY, SYSTEMS AND EQUIPMENT, INCLUDING CAPITAL LEASES, ARE RECORDED AT ACQUISITION COST AND THE PRESENT VALUE OF TOTAL PAYMENTS, RESPECTIVELY.

ACQUISITIONS OF ASSETS IN A PERIOD OF CONSTRUCTION OR INSTALLATION INCLUDE THE CORRESPONDING COMPREHENSIVE FINANCING RESULT AS PART OF THE VALUE OF THE ASSETS.

DEPRECIATION ON PROPERTY, SYSTEMS AND EQUIPMENT IS CALCULATED USING THE STRAIGHT-LINE METHOD, OVER THE ESTIMATED USEFUL LIVES OF THE ASSETS AS DETERMINED BY THE COMPANY'S MANAGEMENT

LEASEHOLD IMPROVEMENTS ARE AMORTIZED OVER THE USEFUL LIFE OF THE IMPROVEMENT OR THE RELATED CONTRACT TERM, WHICHEVER IS SHORTER.

MAINTENANCE AND MINOR REPAIRS, INCLUDING THE COST OF REPLACING MINOR ITEMS NOT CONSTITUTING SUBSTANTIAL IMPROVEMENTS ARE EXPENSED AS INCURRED AND CHARGED MAINLY TO SELLING AND ADMINISTRATIVE EXPENSES.

## (G) TELEPHONE CONCESSION RIGHTS

TELEPHONE CONCESSION RIGHTS, THAT ARE INCLUDED IN INTANGIBLE ASSETS, ARE AMORTIZED UNDER THE STRAIGHT-LINE METHOD OVER A PERIOD OF 20 TO 30 YEARS (THE INITIAL TERM OF THE CONCESSION RIGHTS).

## (H) OTHER AND INTANGIBLE ASSETS

OTHER ASSETS INCLUDE MAINLY COSTS RELATED TO TELMEX / TELNOR INFRASTRUCTURE COSTS, GUARANTEE DEPOSITS, PREPAID EXPENSES AND NOTES ISSUANCE COSTS.

AS A CONSEQUENCE OF THE ACQUISITION OF AVANTEL AND BASED UPON CALCULATIONS PREPARED BY AN INDEPENDENT EXPERT APPRAISER, THE COMPANY RECOGNIZED CERTAIN INTANGIBLE ASSETS AS FOLLOWS: TRADE NAME, CUSTOMER RELATIONSHIPS AND CONCESSION RIGHTS.

## (I) EMPLOYEE BENEFITS

SENIORITY PREMIUMS IS RECOGNIZED DIRECTLY IN THE RESULTS OF THE PERIOD BASED ON COMPUTATIONS PREPARED BY INDEPENDENT ACTUARIES.

## (J) DERIVATIVE FINANCIAL INSTRUMENTS

THE COMPANY ACCOUNTS FOR DERIVATIVES AND HEDGING ACTIVITIES ARE RECORDED ON THE BALANCE SHEET DATE AT THEIR RESPECTIVE FAIR VALUES.

THE COMPANY USES DERIVATIVE FINANCIAL INSTRUMENTS IN ORDER TO MANAGE FINANCIAL

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EXPOSURES, ESPECIALLY RISKS ASSOCIATED WITH FOREIGN CURRENCY AND INTEREST RATES. IN ACCORDANCE WITH IFRS, THE COMPANY MAY APPLY HEDGE ACCOUNTING TO SUCH INSTRUMENTS IF IT MEETS CERTAIN REQUIREMENTS AND ASSESSES WHETHER THE DERIVATIVES THAT ARE USED IN HEDGING TRANSACTIONS ARE HIGHLY EFFECTIVE IN OFFSETTING CASH FLOWS OF HEDGED ITEMS.

THE COMPANY ACCOUNTS FOR THE DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGING ACTIVITIES INTO TWO MAIN CLASSIFICATIONS: (I) FAIR VALUE HEDGING AND (II) CASH FLOW HEDGING.

THE COMPANY USES FINANCIAL DERIVATIVE INSTRUMENTS THAT ARE DESIGNATED AS A FAIR VALUE HEDGE WHERE THE GAIN OR LOSS ON A DERIVATIVE INSTRUMENT DESIGNATED AND QUALIFYING AS A FAIR VALUE HEDGING INSTRUMENT AS WELL AS THE OFFSETTING LOSS OR GAIN ON THE HEDGED ITEM ATTRIBUTABLE TO THE HEDGED RISK SHALL BE RECOGNIZED CURRENTLY IN EARNINGS IN THE SAME ACCOUNTING PERIOD. FOR FINANCIAL DERIVATIVE INSTRUMENTS DESIGNATED AS A CASH FLOW HEDGE THE EFFECTIVE PORTION OF THE GAIN OR LOSS ON A DERIVATIVE INSTRUMENT DESIGNATED AND QUALIFYING AS A CASH FLOW HEDGING INSTRUMENT SHALL BE REPORTED AS A COMPONENT OF OTHER COMPREHENSIVE INCOME AND RECLASSIFIED INTO EARNINGS IN THE SAME PERIOD OR PERIODS DURING WHICH THE HEDGED FORECASTED TRANSACTION AFFECTS EARNINGS.

THE INEFFECTIVE PORTION OF THE CHANGE IN THE FAIR VALUE OF A DERIVATIVE INSTRUMENT THAT QUALIFIES AS A HEDGING ACTIVITY IS REPORTED IN THE INCOME STATEMENT.

THE COMPANY AND IT'S SUBSIDIARIES WILL DISCONTINUE HEDGE ACCOUNTING PROSPECTIVELY WHEN IT IS DETERMINED THAT THE DERIVATIVE IS NO LONGER EFFECTIVE IN OFFSETTING CHANGES IN THE FAIR VALUE OR CASH FLOWS OF THE HEDGED ITEM, THE DERIVATIVE EXPIRES OR IS SOLD, TERMINATED, OR EXERCISED. IN ALL SITUATIONS IN WHICH HEDGE ACCOUNTING IS DISCONTINUED, THE COMPANY CONTINUES TO CARRY THE DERIVATIVE AT ITS FAIR VALUE ON THE BALANCE SHEET AND RECOGNIZES ANY SUBSEQUENT CHANGES IN THE FAIR VALUE OF THE FINANCIAL INSTRUMENT DIRECTLY IN THE INCOME STATEMENT.

## (K) INCOME TAXES

CURRENT IT AND IETU PAYABLE FOR THE YEAR ARE DETERMINED IN CONFORMITY WITH THE TAX PROVISIONS IN EFFECT.

DEFERRED IT AND IETU ARE ACCOUNTED UNDER THE ASSET AND LIABILITY METHOD. DEFERRED TAX AND ESPS ASSETS AND LIABILITIES ARE RECOGNIZED FOR THE FUTURE TAX CONSEQUENCES ATTRIBUTABLE TO DIFFERENCES BETWEEN THE FINANCIAL STATEMENT CARRYING AMOUNTS OF EXISTING ASSETS AND LIABILITIES AND THEIR RESPECTIVE TAX BASES, AND IN THE CASE OF INCOME TAXES, FOR OPERATING LOSS CARRYFORWARDS AND OTHER RECOVERABLE TAX CREDITS. DEFERRED TAX ASSETS AND LIABILITIES ARE MEASURED USING ENACTED TAX RATES EXPECTED TO APPLY TO TAXABLE INCOME IN THE YEARS IN WHICH THOSE TEMPORARY DIFFERENCES ARE EXPECTED TO BE RECOVERED OR SETTLED. THE EFFECT ON DEFERRED TAX ASSETS AND LIABILITIES OF A CHANGE IN TAX RATES IS RECOGNIZED IN THE CONSOLIDATED INCOME IN THE PERIOD THAT INCLUDES THE ENACTMENT DATE.

## (L) COMPREHENSIVE FINANCING RESULT (CFR)

THE CFR INCLUDES INTEREST INCOME AND EXPENSE, FOREIGN EXCHANGE GAIN AND LOSS AND VALUATION EFFECTS OF FINANCIAL INSTRUMENTS, LESS THE AMOUNTS CAPITALIZED, AS PART OF FIXED ASSETS.

FOREIGN CURRENCY TRANSACTIONS ARE RECORDED AT THE RATE OF EXCHANGE PREVAILING ON THE DATE OF EXECUTION OR SETTLEMENT. FOREIGN CURRENCY ASSETS AND LIABILITIES ARE TRANSLATED AT THE EXCHANGE RATE IN FORCE AT THE STATEMENT OF FINANCIAL POSITION DATE. EXCHANGE DIFFERENCES ARISING FROM ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES ARE

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RECOGNIZED IN THE RESULTS OF OPERATIONS.

## (M) REVENUE RECOGNITION

THE COMPANY'S REVENUES ARE RECOGNIZED WHEN EARNED, AS FOLLOWS:

- TELEPHONY SERVICES - CUSTOMERS ARE CHARGED A FLAT MONTHLY FEE FOR BASIC SERVICE, A PER-CALL FEE FOR LOCAL CALLS, A PER-MINUTE USAGE FEE FOR CALLS COMPLETED ON A CELLULAR LINE AND DOMESTIC AND INTERNATIONAL LONG DISTANCE CALLS, AND A MONTHLY FEE FOR VALUE-ADDED SERVICES.
- ACTIVATION - AT THE MOMENT OF INSTALLING THE SERVICE WHEN THE CUSTOMER HAS A CONTRACT WITH INDEFINITE LIFE; OTHERWISE IS RECOGNIZED ACCORDING TO THE LENGTH OF THE CONTRACT BETWEEN THE CUSTOMER AND THE COMPANY.
- EQUIPMENT - AT THE MOMENT OF SELLING THE EQUIPMENT AND WHEN THE CUSTOMER ACQUIRES THE PROPERTY OF THE EQUIPMENT AND ASSUMED ALL RISKS.
- INTEGRATED SERVICES - AT THE MOMENT WHEN THE CLIENT RECEIVES THE SERVICE.

THE COMPANY PROVIDES AN ALLOWANCE FOR DOUBTFUL ACCOUNTS BASED ON MANAGEMENT'S ANALYSES AND ESTIMATIONS. THE ALLOWANCE EXPENSE IS INCLUDED AS SELLING AND ADMINISTRATIVE EXPENSES IN THE CONSOLIDATED STATEMENT OF OPERATIONS.

## (N) CONTINGENCIES

LIABILITIES FOR LOSS CONTINGENCIES ARE RECORDED WHEN IT IS PROBABLE THAT A LIABILITY HAS BEEN INCURRED AND THE AMOUNT OF THE ASSESSMENT AND/OR REMEDIATION CAN BE REASONABLY ESTIMATED. WHEN A REASONABLE ESTIMATION CANNOT BE MADE, QUALITATIVE DISCLOSURE IS PROVIDED IN THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS. CONTINGENT REVENUES, EARNINGS OR ASSETS ARE NOT RECOGNIZED UNTIL THEIR REALIZATION IS VIRTUALLY ASSURED.

## (O) IMPAIRMENT OF PROPERTY, SYSTEMS AND EQUIPMENT AND OTHER NON-CURRENT ASSETS

THE COMPANY EVALUATES, AT LEAST ONCE A YEAR, THE ADJUSTED VALUES OF ITS PROPERTY, SYSTEMS AND EQUIPMENT AND OTHER NON-CURRENT ASSETS SUBJECT TO AMORTIZATION TO DETERMINE WHETHER THERE IS AN INDICATION OF POTENTIAL IMPAIRMENT OR WHENEVER EVENTS OR CHANGES IN CIRCUMSTANCES INDICATE THAT THE CARRYING AMOUNT OF AN ASSET MAY NOT BE RECOVERABLE. RECOVERABILITY OF ASSETS TO BE HELD AND USED IS MEASURED BY A COMPARISON OF THE CARRYING AMOUNT OF AN ASSET TO ESTIMATED UNDISCOUNTED CASH FLOWS EXPECTED TO BE GENERATED BY THE ASSET. IF THE CARRYING AMOUNT OF AN ASSET EXCEEDS ITS ESTIMATED FUTURE CASH FLOWS, AN IMPAIRMENT CHARGE IS RECOGNIZED BY THE AMOUNT BY WHICH THE CARRYING AMOUNT OF THE ASSET EXCEEDS THE FAIR VALUE OF THE ASSET. ASSETS TO BE DISPOSED OFF ARE SEPARATELY PRESENTED IN THE STATEMENT OF FINANCIAL POSITION AND REPORTED AT THE LOWER OF THE CARRYING AMOUNT OR FAIR VALUE LESS COSTS TO SELL, AND ARE NO LONGER DEPRECIATED.

## (P) SEGMENT INFORMATION

THE COMPANY CONSIDERS THAT IT OPERATES IN A SINGLE BUSINESS SEGMENT. MANAGEMENT OVERSEES THE BUSINESS AS TWO REVENUE STREAMS (MASS MARKET AND BUSINESS MARKET); HOWEVER IT IS NOT POSSIBLE TO ATTRIBUTE DIRECT OR INDIRECT COSTS TO THE INDIVIDUAL STREAMS OTHER THAN SELLING EXPENSES.

## (Q) ACCRUALS

BASED ON MANAGEMENT'S ESTIMATES, THE COMPANY RECOGNIZES ACCRUALS FOR PRESENT

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OBLIGATIONS WHERE THE TRANSFER OF ASSETS OR THE RENDERING OF SERVICES IS VIRTUALLY INEVITABLE AND ARISES AS A CONSEQUENCE OF PAST EVENTS, MAINLY INTERESTS, SALARIES AND OTHER PAYMENTS TO EMPLOYEES.

#### (4) IFRS TRANSITION

##### A) APPLICATION OF IFRS 1

THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDING DECEMBER 31, 2012 TO BE ISSUED BY THE COMPANY WILL BE ITS FIRST ANNUAL FINANCIAL STATEMENTS THAT COMPLY WITH IFRS. THE COMPANY APPLIED IFRS 1, FIRST-TIME ADOPTION ("IFRS 1"), IN PREPARING ITS CONSOLIDATED FINANCIAL STATEMENTS.

THE TRANSITION DATE IS JANUARY 1, 2011 AND THE OPENING BALANCE SHEET WAS PREPARED AT THAT DATE. FOR THE YEAR ENDED DECEMBER 31, 2011, THE COMPANY PRESENTED ITS FINANCIAL INFORMATION ON A CONSOLIDATED BASIS UNDER MEXICAN FINANCIAL REPORTING STANDARDS ("FRS") WHICH ARE DEFINED AS THE PREVIOUS FINANCIAL REPORTING STANDARDS ("PREVIOUS FRS"). THE DIFFERENCES IN THE REQUIREMENTS FOR RECOGNITION, MEASUREMENT AND PRESENTATION BETWEEN IFRS AND FRS WERE RECONCILED FOR PURPOSES OF THE SHAREHOLDERS' EQUITY ON THE DATE OF TRANSITION AND DECEMBER 31, 2011 AND FOR PURPOSES OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2011.

THE COMPANY APPLIED THE MANDATORY EXCEPTIONS AND CERTAIN OPTIONAL EXCEPTIONS PROVIDED IN IFRS 1 ON FULL RETROSPECTIVE APPLICATION OF IFRS.

##### B) OPTIONAL EXEMPTIONS

THE COMPANY CHOSE THE FOLLOWING OPTIONAL EXEMPTIONS TO THE RETROACTIVE APPLICATION OF IFRS:

BUSINESS COMBINATIONS - THE BUSINESS COMBINATIONS EXEMPTION WAS APPLIED; THEREFORE, NO REFORMULATIONS HAVE BEEN MADE TO BUSINESS COMBINATIONS THAT TOOK PLACE BEFORE THE DATE OF TRANSITION.

DEEMED COST - THE DEEMED COST EXEMPTION WAS APPLIED; THEREFORE, THE COMPANY HAS OPTED FOR USING THE RESTATED AMOUNTS ACCORDING TO MEXICAN FINANCIAL REPORTING STANDARDS OF THE ITEMS OF PROPERTY, SYSTEMS AND EQUIPMENT, WHICH INCLUDE INFLATION ADJUSTMENTS UNTIL DECEMBER 31, 2007, BEING THE LAST PERIOD WHEN FRS REQUIRED THE RECOGNITION OF THE EFFECTS OF INFLATION ON FINANCIAL INFORMATION BY USING GENERAL INDEXES.

EMPLOYEE BENEFITS - THE EMPLOYEE BENEFITS EXEMPTION WAS APPLIED; THEREFORE, ALL CUMULATIVE ACTUARIAL GAINS AND LOSSES AS OF THE DATE OF TRANSITION ARE RECOGNIZED ON THE CUMULATIVE LOSSES FROM PREVIOUS YEARS.

BORROWING COSTS - THE COMPANY WAS APPLY THE BORROWING COSTS EXEMPTION TO NOT MODIFY THE CAPITALIZED BORROWING COSTS ON QUALIFIED ASSETS FOR A PERIOD THAT COMMENCED AND ENDED BEFORE THE TRANSITION DATE.

##### C) MANDATORY EXCEPTIONS

HEDGE ACCOUNTING - AS OF TRANSITION DATE, THE COMPANY MEASURED AT FAIR VALUE ALL DERIVATIVE FINANCIAL INSTRUMENTS. ONLY DESIGNATED AS ACCOUNTING HEDGES INSTRUMENTS THAT MEET THE CRITERIA OF IAS 39.

NON-CONTROLLING INTERESTS - THE COMPANY DOES NOT INCLUDE A NON-CONTROLLING INTEREST IN ITS FINANCIAL STATEMENTS REQUIRING THE APPLICATION OF THE REQUIREMENTS OF IAS 27,

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CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS, RELATING TO NON-CONTROLLING INTEREST PROSPECTIVELY FROM THE DATE OF TRANSITION.

CALCULATION OF ESTIMATES - ESTIMATES AT THE DATE OF TRANSITION ARE CONSISTENT WITH ESTIMATES AT THE SAME DATE UNDER FRS, UNLESS THERE IS EVIDENCE OF ERROR IN THESE ESTIMATES.

FRS AND IFRS RECONCILIATION

THE FOLLOWING RECONCILIATIONS PROVIDE A QUANTIFICATION OF THE EFFECTS OF TRANSITION TO IFRS:

- SHAREHOLDERS' EQUITY AT JANUARY 1, 2011 AND DECEMBER 31, 2011
- COMPREHENSIVE INCOME FOR THE PERIOD ENDED MARCH 31, 2011

TRANSITION EFFECTS IN STOCKHOLDERS' EQUITY

CONDENSED STATEMENTS OF FINANCIAL POSITION

TRANSITION EFFECTS  
JANUARY 1, 2011  
(TRANSITION DATE)

	NOTE	FRS	ADJUSTMENTS	RECLASSIFICATIONS	IFRS
TOTAL CURRENT ASSETS	(C)	4,443,154	(196)	-	4,442,958
PROPERTY, SYSTEMS AND EQUIPMENT, NET		15,769,472	-	-	15,769,472
INTANGIBLE ASSETS, NET	(D)	515,331	(210,005)	-	305,326
DEFERRED INCOME TAXES	(F)	1,332,960	295,511	-	1,628,471
DEFERRED EMPLOYEE STATUTORY PROFIT SHARING	(D)	18,581	(18,581)	-	-
TOTAL ASSETS	(C, B, F, D, E)	22,531,578	34,442	(141,002)	22,425,018
TOTAL CURRENT LIABILITIES	(I)	4,737,194	(3,795)	-	4,733,399
TOTAL LIABILITIES	(A, E)	14,898,110	(55,816)	(141,002)	14,697,497
TOTAL STOCKHOLDERS' EQUITY	(A, B, C, D, F, H, I)	7,633,468	94,053	-	7,727,521
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	(A, B, C, D, E, F, H, I)	22,531,578	34,442	(141,002)	22,425,018

TRANSITION EFFECTS  
DECEMBER 31, 2011  
(DATE OF LAST REPORT IN FRS)

	NOTE	FRS	ADJUSTMENTS	RECLASSIFICATIONS	IFRS
TOTAL CURRENT ASSETS	(C)	4,342,730	(3,155)	-	4,339,575
PROPERTY, SYSTEMS					

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AND EQUIPMENT, NET	(H)	15,517,788	(94,765)	-	15,423,023
INTANGIBLE ASSETS, NET	(B)	447,879	(182,878)	-	265,001
DEFERRED INCOME TAXES	(F)	1,526,009	327,383	-	1,853,392
DEFERRED EMPLOYEE STATUTORY PROFIT SHARING	(D)	18,082	(18,082)	-	-
TOTAL ASSETS (B, C, D, E, F, H)		22,277,272	3,363	(188,681)	22,091,954
TOTAL CURRENT LIABILITIES	(I)	4,030,479	(3,721)	-	4,026,758
TOTAL LIABILITIES (A, E)		16,537,126	(58,677)	(188,681)	16,289,768
TOTAL STOCKHOLDERS' EQUITY (A, B, C, D, F, H, I)		5,740,146	62,040	-	5,802,186
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (A, B, C, D, E, F, H, I)		22,277,272	3,363	(188,681)	22,091,954

### RECONCILIATION OF STOCKHOLDERS' EQUITY

	NOTE	JANUARY 1, 2011 (TRANSITION DATE)	DECEMBER 31, 2011 (DATE OF LAST REPORT IN FRS)
TOTAL STOCKHOLDERS' EQUITY UNDER FRS		7,633,468	5,740,146
EFFECTS OF INFLATION	(B)	(242,292)	(208,018)
DEFERRED EMPLOYEE STATUTORY PROFIT SHARING	(D)	(18,581)	(18,082)
EMPLOYEE BENEFITS	(A)	55,816	54,956
EMBEDDED DERIVATIVE FINANCIAL INSTRUMENTS	(C)	(196)	3,533
PROPERTY, SYSTEMS AND EQUIPMENT, NET	(H)	-	(94,765)
CREDIT RISK ON FINANCIAL INSTRUMENTS	(I)	2,732	(2,077)
DEFERRED INCOME TAXES	(F)	296,574	326,493
TOTAL ADJUSTMENTS		94,053	62,040
TOTAL STOCKHOLDERS' EQUITY UNDER IFRS		7,727,521	5,802,186

### CONDENSED STATEMENTS OF OPERATIONS

TRANSITION EFFECTS  
PERIOD ENDED MARCH 31, 2011

	NOTE	FRS	ADJUSTMENTS	RECLASSIFICATIONS	IFRS
TELEPHONE SERVICES AND RELATED REVENUES		2,654,522	-	-	2,654,522
COST OF REVENUES					

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AND SERVICES	(758,764)	-	-	(758,764)
SELLING AND ADMINISTRATIVE EXPENSES	(A,G) (1,076,448)	2,572	(429)	(1,074,305)
OPERATING INCOME	(A,B,G) 24,108	11,141	27,392	62,641
NET INCOME	(A,B,C,D,F,H) 68,887	21,422	-	90,309

### RECONCILIATION OF NET INCOME

	NOTE	PERIOD ENDED MARCH 31, 2011
TOTAL INCOME UNDER FRS		68,887
EFFECTS OF INFLATION	(B)	8,569
DEFERRED EMPLOYEE STATUTORY PROFIT SHARING	(D)	2,185
EMPLOYEE BENEFITS	(A)	2,572
EMBEDDED DERIVATIVE FINANCIAL INSTRUMENTS	(C)	(25)
CAPITALIZATION OF FOREIGN EXCHANGE	(H)	15,319
DEFERRED INCOME TAXES	(F)	(7,198)
TOTAL ADJUSTMENTS		21,422
TOTAL INCOME UNDER IFRS		90,309

THE FOLLOWING NOTES EXPLAIN THE ADJUSTMENTS / RECLASSIFICATIONS THAT WERE SIGNIFICANT IN THE TRANSITION TO IFRS.

#### A) EMPLOYEE BENEFITS

UNDER IFRS, PROVISIONS FOR SEVERANCE COMPENSATIONS ARE RECOGNIZED UNTIL THE COMPANY HAS A DEMONSTRABLE COMMITMENT TO END THE RELATIONSHIP WITH THE EMPLOYEE OR HAS MADE AN OFFER TO ENCOURAGE VOLUNTARY RETIREMENT, THEREFORE, THE LIABILITY RECOGNIZED UNDER FRS WAS ELIMINATED.

#### B) EFFECTS OF INFLATION

UNDER IFRS, THE INFLATIONARY EFFECTS ARE RECOGNIZED IN THE FINANCIAL STATEMENTS WHEN THE ECONOMY OF THE CURRENCY USED BY THE COMPANY QUALIFIES AS HYPERINFLATIONARY. THE MEXICAN ECONOMY WAS NO LONGER HYPERINFLATIONARY IN 1998 AND, CONSEQUENTLY, INFLATIONARY EFFECTS THAT WERE RECOGNIZED BY THE COMPANY UNTIL DECEMBER 31, 2007 UNDER NIF WERE REVERSED.

#### C) EMBEDDED DERIVATIVE FINANCIAL INSTRUMENTS

IAS 39 FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT, ESTABLISHES AN EXCEPTION TO EMBEDDED DERIVATIVES IN CONTRACTS THAT ARE DENOMINATED IN FOREIGN CURRENCY WHEN THE FOREIGN CURRENCY IS COMMONLY USED IN THE ECONOMIC ENVIRONMENT OF THE COMPANY, WHICH IS THE CASE OF U.S. DOLLAR, SO THE COMPANY CANCELED THE BALANCE RECOGNIZED UNDER FRS IN EMBEDDED DERIVATIVES.

#### D) DEFERRED EMPLOYEE STATUTORY PROFIT SHARING

IFRS DOES NOT ALLOW THE RECOGNITION OF DEFERRED ESPS ASSETS OR LIABILITIES; THEREFORE, THE DEFERRED ESPS ASSET RECOGNIZED UNDER FRS WAS ELIMINATED.

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## E) NOTES ISSUANCE COSTS

ACCORDING TO IAS 38, INTANGIBLE ASSETS RELATED TO NOTES ISSUANCE COSTS SHOULD BE PRESENTED NET OF DEBT.

## F) DEFERRED INCOME TAXES

THE ADJUSTMENTS TO BE RECOGNIZED BY THE COMPANY REPRESENT AN IMPACT ON THE DEFERRED INCOME TAXES CALCULATION, ACCORDING WITH THE REQUIREMENTS ESTABLISHED BY IAS 12, INCOME TAXES.

ADDITIONALLY A DEFERRED TAX IMPACT RESULTING FROM THE EXEMPTION SET OUT IN IAS 12, INCOME TAXES, TO RECOGNIZE A LIABILITY OR A DEFERRED TAX ASSET FOR THE TAXABLE AND DEDUCTIBLE TEMPORARY DIFFERENCES, RECOGNIZING FOR THE FIRST TIME AN ASSET OR LIABILITY IN A TRANSACTION THAT IS NOT A BUSINESS COMBINATION AND THAT INITIAL RECOGNITION AFFECTS NEITHER ACCOUNTING PROFIT NOR TAXABLE PROFIT (TAX LOSS) FOR EXAMPLE THE PURCHASE OF AUTOMOBILES IN MEXICO, WHERE TAX DEDUCTION HAVE A LIMIT TO A CERTAIN AMOUNT, SO THE ACQUISITION COST IN EXCESS OF THAT AMOUNT IS NOT DEDUCTIBLE FOR TAX PURPOSES OR FOR IMMEDIATE DEDUCTION, WHICH IS DEDUCTIBLE AT THE TIME OF PURCHASE CERTAIN PERCENTAGE AND THE REMAINING AMOUNT WILL NEVER BE DEDUCTIBLE FOR TAX PURPOSES.

## G) OPERATIONAL ITEMS

UNDER FRS CERTAIN ITEMS WERE PRESENTED OUT OF OPERATING INCOME, INCLUDING: EMPLOYEE STATUTORY PROFIT SHARING, RESTRUCTURING COSTS AND THE PROFIT OR LOSS ON SALE OF FIXED ASSETS. THESE AMOUNTS ARE PRESENTED WITHIN OPERATING INCOME IN THE FINANCIAL STATEMENTS UNDER IFRS.

## H) CAPITALIZATION OF FOREIGN EXCHANGE

UNDER FRS ALL COMPONENTS OF THE COMPREHENSIVE FINANCING (INTEREST, EXCHANGE RESULT, ETC.) ARE CAPITALIZED, UNDER IAS 23 FOREIGN EXCHANGE ARE CAPITALIZED WHEN IS CONSIDERED AN ADJUSTMENT TO INTEREST COST.

## I) CREDIT RISK ON FINANCIAL INSTRUMENTS

IAS 39 REQUIRES CONSIDERATION OF CREDIT RISK IN DETERMINING THE FAIR VALUE OF FINANCIAL INSTRUMENTS, INCORPORATING THE CREDIT RISK IN THE FAIR VALUE OF FINANCIAL INSTRUMENTS RECOGNIZES THE POSSIBILITY THAT THE ENTITY OR THE COUNTERPARTY MAY LEAD TO DEFAULT AND ORIGINATE POTENTIAL LOSSES.

## (5) RELATED PARTIES TRANSACTIONS AND BALANCES

### BANAMEX AND/OR CITIGROUP INC. AGREEMENTS

#### • CREDIT AGREEMENT WITH BANAMEX

ON OCTOBER 22, 2010, A REVOLVING CREDIT AGREEMENT WAS SIGNED BETWEEN AXTEL, SAB DE CV AND BANCO NACIONAL DE MEXICO S.A., MEMBER OF GRUPO FINANCIERO BANAMEX. THIS AMOUNT COVERS A COMMITTED LINE OF CREDIT UP TO U.S. \$ 30.0 MILLION DOLLARS OR ITS EQUIVALENT IN MEXICAN PESOS AND IT HAS A TENOR OF THREE YEARS. ON DECEMBER 7, 2010 WE HAD A WITHDRAWAL OF \$ 280.0 MILLION MEXICAN PESOS, RENEWABLE EVERY NINETY DAYS AND BEARING INTEREST ON A MONTHLY BASIS. ONCE THE WITHDRAW PERIOD ENDS, THE AMOUNT WILL BE REPAYABLE IN TWO YEARS. DURING NOVEMBER 2011, THIS LOAN WAS PAID IN FULL.

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## •SYNDICATED LOAN AGREEMENT WITH BANAMEX

ON NOVEMBER 17, 2011, THE COMPANY CLOSED A SYNDICATED LOAN WITH BANCO NACIONAL DE MEXICO, SA, A MEMBER OF GRUPO FINANCIERO BANAMEX; BANCO MERCANTIL DEL NORTE SA, INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO BANORTE; CREDIT SUISSE AG, CAYMAN ISLANDS BRANCH; ING BANK NV, DUBLIN BRANCH AND STANDARD BANK PLC. THE TOTAL AMOUNT OF THE LINE IS US\$ 100 MILLION WITH A FOUR YEAR TENOR, TWO YEAR GRACE PERIOD OF PRINCIPAL AND MADE UP OF A FUNDED AMOUNT AND A COMMITTED SHORT TERM REVOLVING FACILITY. THE LOAN IS SECURED BY THE ACCOUNTS RECEIVABLE OF CERTAIN CORPORATE CUSTOMERS OF THE COMPANY. AS OF DECEMBER 31, 2011 US\$ 44.5 MILLION AND MX\$ 216.9 MILLION HAVE BEEN FUNDED, WHILE THE REVOLVING FACILITY HAS NOT BEEN DISBURSED. THE OPERATION CONTEMPLATES A RATE RANGE, GOING FROM LIBOR+3.0% TO LIBOR+4.5% IN DOLLARS AND A TIIE+3.0% TO TIIE+4.5% IN PESOS, ACCORDING TO THE LEVERAGE OF THE COMPANY. INTEREST PAYMENTS ARE ON A QUARTERLY BASIS AND THE PURPOSE OF THE LOAN IS TO STRENGTHEN LIQUIDITY, CAPITAL INVESTMENTS, DEBT REPAYMENT AND OTHER CORPORATE GENERAL PURPOSES.

## •BANAMEX MASTER SERVICES AGREEMENT

ON NOVEMBER 27, 2006, AXTEL, AVANTEL AND BANAMEX ENTERED INTO A MASTER SERVICES AGREEMENT IN WHICH IT WAS AGREED THAT ALL SERVICE AGREEMENTS IN EFFECT BETWEEN AVANTEL AND BANAMEX AS OF THE DATE OF THE ACQUISITION WOULD SURVIVE WITH SUBSTANTIALLY IDENTICAL TERMS AND AXTEL WOULD PROVIDE TELECOMMUNICATIONS SERVICES (INCLUDING, LOCAL, LONG DISTANCE AND OTHER SERVICES) TO BANAMEX AND ITS AFFILIATES LOCATED IN MEXICO. DURING THE TERM OF THE AGREEMENT, BANAMEX HAS AGREED TO CONTRACT WITH US FOR ALL OF ITS CURRENT AND FUTURE TELECOMMUNICATIONS NEEDS AND WE HAVE AGREED TO GRANT BANAMEX A MOST FAVORED CUSTOMER BENEFIT WITH RESPECT TO RATES AND SERVICES LEVELS. THE INITIAL TERM OF THIS AGREEMENT IS FOR FIVE YEARS, WITH AUTOMATIC RENEWAL FOR SIMILAR PERIODS OF FIVE YEARS IF AT THAT TIME OF RENEWAL WE ARE NOT IN BREACH OF OUR OBLIGATIONS. AT MARCH 31, 2012, THIS CONTRACT IS STILL CURRENT AND A RENEWAL IS BEING NEGOTIATED.

## •TELHOLDING AGREEMENT

ON NOVEMBER 30, 2006, WE ENTERED INTO AN AGREEMENT WITH TEL HOLDING WHEREBY TEL HOLDING WAS GRANTED THE OPTION TO SUBSCRIBE FOR A NUMBER OF SHARES (IN THE FORM OF CPOS) REPRESENTING UP TO 10% OF OUR OUTSTANDING SHARES. PURSUANT TO THIS SUBSCRIPTION AGREEMENT, TEL HOLDING SUBSCRIBED AND PAID 82,151,321 SERIES B SHARES IN THE FORM OF CPOS ON JANUARY 04, 2007. ACCORDING TO THE TERMS OF THIS SUBSCRIPTION AGREEMENT, TEL HOLDING AGREED NOT TO TRANSFER ANY OF THE CPOS ACQUIRED PURSUANT TO SUCH SUBSCRIPTION AGREEMENT FOR A PERIOD OF 364 DAYS FOLLOWING THE DATE OF THE ACQUISITION OF SUCH CPOS, EXCEPT IN CERTAIN CIRCUMSTANCES. IN ADDITION, TEL HOLDING WAS GRANTED THE RIGHT TO REQUEST US TO ASSIST AND SUPPORT THEM, AT OUR EXPENSE, IN PREPARING AND ISSUING PLACEMENT PROSPECTUS AND IN PARTICIPATING IN INVESTOR MEETINGS FOR THE OFFER OF THE CPOS, PROVIDED THAT (I) THREE YEARS HAVE ELAPSED SINCE THE ACQUISITION OF THE CPOS BY TEL HOLDING AND (II) SUCH OFFER IS MADE IN ANY SECURITIES EXCHANGE WHERE THE CPOS REPRESENTING OUR SHARES ARE TRADING AT THE TIME.

## •BLACKSTONE'S ADVISORY SERVICES

WE HAVE ENGAGED AND MAY CONTINUE TO ENGAGE THE BLACKSTONE GROUP AND CERTAIN OF ITS AFFILIATES FROM TIME TO TIME IN CONNECTION WITH STRATEGIC ADVICE RELATED TO OUR BUSINESS.

## OTHER TRANSACTIONS

•IN MARCH AND MAY 2000, AXTEL AND GEMINI, S.A. DE C.V. (A COMPANY CONTROLLED BY ALBERTO GARZA SANTOS, ONE OF OUR SHAREHOLDERS) ENTERED INTO LEASE AGREEMENTS FOR THE LEASE OF

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LAND AND PROPERTY ON WHICH OUR CORPORATE OFFICES AND A SWITCH ARE LOCATED. THE AGREEMENT WAS MODIFIED AND SIGNED BETWEEN AXTEL AND DELTA INMOBILIARIA Y VALORES, S.A. DE C.V. (FORMERLY INVERSIONES DD, S.A. DE C.V.). FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2012 AND 2011, THE COMPANY PAID DELTA INMOBILIARIA Y VALORES APPROXIMATELY US\$0.8 MILLION AND US\$0.6 MILLION, RESPECTIVELY, IN RENTAL PAYMENTS UNDER THESE LEASES.

• IN AUGUST 2002, AXTEL AND NEORIS DE MEXICO, S.A. DE C.V. (A CONSULTING FIRM INDIRECTLY CONTROLLED BY AN AFFILIATE OF IMPRA CAFÉ, S.A. DE C.V., ONE OF OUR SHAREHOLDERS) ENTERED INTO A PROFESSIONAL SERVICES AGREEMENT FOR THE PROVISION OF TECHNICAL ASSISTANCE TO US WITH RESPECT TO A CUSTOMER CARE PLATFORM. FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2011, THE COMPANY PAID NEORIS APPROXIMATELY US\$0.1 MILLION IN SERVICE FEES.

• IN APRIL 2002, AXTEL AND INSTALACIONES Y DESCONEXIONES ESPECIALIZADAS, S.A. DE C.V. (A COMPANY CONTROLLED BY THE SON OF ALBERTO SANTOS DE HOYOS, ONE OF OUR SHAREHOLDERS) ENTERED INTO A SERVICES AGREEMENT FOR THE PROVISION OF INSTALLATION SERVICES WITH REGARD TO CUSTOMER PREMISE EQUIPMENT. FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2012 AND 2011, THE COMPANY PAID THEM APPROXIMATELY US\$0.6 MILLION AND US\$0.4 MILLION, RESPECTIVELY, IN FEES FOR SERVICES.

• FUNDACIÓN AXTEL A.C., A NON-PROFIT CHARITY, WAS FOUNDED IN 2005 TO PROMOTE PROVIDE ASSISTANCE IN THE COMMUNITIES WHERE THE COMPANY OPERATE. AMONG OTHERS, TOMAS MILMO SANTOS AND PATRICIO JIMENEZ SERVE AS DIRECTORS IN FUNDACIÓN AXTEL. FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2012 AND 2011, THE COMPANY CONTRIBUTED APPROXIMATELY US\$0.1 AND US\$0.1 MILLION, RESPECTIVELY, TO FUNDACIÓN AXTEL.

• ON NOVEMBER 24, 2006, OUR SHAREHOLDERS THOMAS MILMO ZAMBRANO, MARIA LUISA SANTOS DE HOYOS, ALBERTO SANTOS DE HOYOS, TOMAS MILMO SANTOS AND IMPRA CAFE, S.A. DE C.V., ENTERED INTO AN SHAREHOLDERS AGREEMENT WHEREBY THEY AGREED, AMONG OTHER THINGS, TO VOTE THEIR SHARES (IN ANY MEETING OF SHAREHOLDERS WHEREBY THE MEMBERS OF THE BOARD ARE TO BE ELECTED) IN ORDER TO DESIGNATE ONE DIRECTOR (AND ITS ALTERNATE) TO OUR BOARD AS PROPOSED JOINTLY BY CITIGROUP INC., ITS SUBSIDIARIES AND TEL HOLDING AND ITS ASSIGNS, SO LONG AS SUCH ENTITIES COLLECTIVELY HOLD OR BENEFICIAL OWN (DIRECTLY OR INDIRECTLY THROUGH CPOS) SHARES REPRESENTING BETWEEN 7% AND 10% OF OUR OUTSTANDING SHARES.

THE CONTRACTS MENTIONED ABOVE, HAVE BEEN SIGNED UNDER MARKET CONDITIONS.

## (6) COMMITMENTS AND CONTINGENCIES

AS OF MARCH 31, 2012, THE COMPANY HAS THE FOLLOWING COMMITMENTS AND CONTINGENCIES:

(A) ON SEPTEMBER 1, 2008, THE DEPARTMENT OF COMMUNICATIONS AND TRANSPORTATION (SECRETARÍA DE COMUNICACIONES Y TRANSPORTES "SCT"), ISSUED FOUR RULINGS RESOLVING FOUR ADMINISTRATIVE REVIEW PROCEEDINGS REGARDING INTERCONNECTION DISAGREEMENTS THAT WERE PREVIOUSLY FILED BEFORE THE FEDERAL TELECOMMUNICATIONS COMMISSION (COMISIÓN FEDERAL DE TELECOMUNICACIONES "COFETEL") AGAINST THE FOLLOWING COMPANIES: RADIOMOVILDIPSA, S.A. DE C.V. ("TELCEL"), IUSACELL PCS, S.A. DE C.V. AND OTHERS ("GRUPO IUSACELL"), PEGASO PCS, S.A. DE C.V. AND OTHERS ("GRUPO TELEFONICA") AND OPERADORA UNEFON, S.A. DE C.V. ("UNEFON").

THE RESOLUTIONS ISSUED BY THE SCT, PRIMARILY CONSIDER THE APPLICATION OF NEW RATES REGARDING CONSUMPTION BEGINNING IN SEPTEMBER 2008, AND SECONDLY, THE RETROACTIVE APPLICATION OF THOSE RATES. IN THE CASE OF TELCEL IN EFFECT SINCE JANUARY 1, 2008, AND FOR THE CASE OF THE OTHER MOBILE OPERATORS (GRUPO IUSACELL, GRUPO TELEFONICA AND UNEFON), IN EFFECT SINCE OCTOBER 2006.

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THEREFORE, EFFECTIVE SEPTEMBER 2008, THE MOBILE CARRIERS ARE OBLIGATED TO BILL THE COMPANY FOR THE TERMINATION OF CALLS IN MOBILE PHONES UNDER THE MODALITY OF "CALLING PARTY PAYS" ACCORDING TO THE TERMS OF THE RESOLUTIONS (USING RATES BASED ON THE ACTUAL DURATION OF THE CALL), AND IN ADDITION, ACCORDING TO SUCH RESOLUTIONS, THE COMPANY COULD CLAIM THE AMOUNTS THAT THE COMPANY HAS PAID IN EXCESS DURING THE PERIODS REFERRED TO UNDER THE ABOVE MENTIONED RESOLUTIONS, THAT IS, THE DIFFERENCE BETWEEN THE INTERCONNECTION RATES APPLIED BY THE MOBILE CARRIERS AND PAID BY THE COMPANY DURING SUCH PERIOD, AND THE RATES ESTABLISHED BY THE SCT IN THE RESOLUTIONS.

AS OF MARCH 31, 2012, ACCORDING TO THE RESOLUTIONS OF THE SCT AND USING SOME PRELIMINARY INFORMATION OF THE COMPANY, BOTH AXTEL AND AVANTEL WOULD HAVE PAID APPROXIMATELY PS. 397.7 MILLION IN EXCESS TO TELCEL, AND TO THE REST OF THE MOBILE OPERATORS, PS. 396.6 MILLION.

WITH RESPECT TO THE POSSIBILITY OF THE COMPANY TO RECOVER THE PAYMENTS MADE IN EXCESS OF APPLICABLE AMOUNTS DUE UNDER THE RESOLUTIONS FOR PERIODS PRIOR TO AUGUST 2008, IT IS IMPORTANT TO MENTION THAT COLLECTION OR RECOVERY OF SUCH AMOUNTS IS NOT AUTOMATIC, THEREFORE, IN ORDER TO COLLECT OR RECOVER, AMONG OTHER ALTERNATIVES, THE COMPANY MAY INITIATE ORDINARY COMMERCIAL LAWSUIT AGAINST THE MOBILE CARRIERS. IN THIS CASE ANY CLAIMED AMOUNTS BY THE COMPANY IN SUCH LITIGATION WILL BE SUBJECT TO THE INTERPRETATION OF THE JUDGES BASED UPON THE EVIDENCE AND DOCUMENTS PRESENTED BY THE PARTIES, THAT IN CASE THAT THE COMPANY DECIDES TO FOLLOW THIS ALTERNATIVE. CONSIDERING THE CHARACTERISTICS AND COMPLEXITY OF THE RESOLUTIONS OF THE SCT AND THEIR EFFECTS, PLUS THE FACT THAT THERE IS LITTLE OR NO PRECEDENTS, IT IS VERY LIKELY THAT THESE PROCEEDINGS WILL BE LENGTHY. AS OF MARCH 31, 2012, THE COMPANY HAS NOT RECOGNIZED THE BENEFIT OF ANY SUCH POSSIBLE RECOVERY.

AS A RESULT OF THE RESOLUTIONS ISSUED BY THE SCT, THE COMPANY RECOGNIZED FROM AUGUST 2008 AND THEREAFTER, THE INTERCONNECTION RATE APPLICABLE FOR TERMINATION IS: PS. 0.5465, PS. 0.5060, PS. 0.4705 AND PS. 0.4179 FOR EACH ACTUAL MINUTE FOR TELCEL AND TELEFONICA FOR THE YEARS 2008, 2009, 2010 AND 2011, RESPECTIVELY; AND PS. 0.6032 PER MINUTE FOR THE REST OF THE CARRIERS. APPLYING THE CONCEPT OF NON-DISCRIMINATORY TREATMENT, AVANTEL ALSO ADOPTED THE RATES MENTIONED ABOVE. THE RATES THAT AXTEL AND AVANTEL WERE PAYING BEFORE THE RESOLUTIONS AMOUNTED TO PS. 1.3216 FOR EACH ACTUAL MINUTE FOR TELCEL AND PS. 1.21 FOR EACH ROUNDED MINUTE FOR THE REST OF THE MOBILE CARRIERS. AS OF MARCH 31, 2012, THE DIFFERENCE BETWEEN THE AMOUNTS PAID BY THE COMPANY ACCORDING TO THE NEW RATES ESTABLISHED BY THE SCT, AND THE AMOUNTS BILLED BY THE MOBILE CARRIERS, AMOUNTED TO APPROXIMATELY PS. 2,003MILLION NOT INCLUDING VALUE ADDED TAX.

THE COMPANY IS AWARE THAT TELCEL AND THE OTHER MOBILE CARRIERS HAVE FILED BEFORE THE FEDERAL COURTS, THEIR DISAGREEMENT WITH RESPECT TO THE RESOLUTIONS ISSUED BY THE SCT, AND THERE IS A CONTINGENCY FOR THE COMPANY (AXTEL AND AVANTEL) IN CASE THAT THE COURTS RULE AGAINST THESE RESOLUTIONS, AND THAT AS A RESULT, DIFFERENT RATES ARE ESTABLISHED IN COMPARISON TO THOSE ESTABLISHED BY THE SCT. THE CONTINGENCY WOULD BE THE DIFFERENCE BETWEEN THE RATES ESTABLISHED BY SCT, AND THOSE RATES ESTABLISHED BY THE COURTS UNDER THE RESPECTIVE RESOLUTIONS, SUCH CONTINGENCY IN CASE THAT THESE RATES ARE HIGHER THAN PS. 0.5465, PS. 0.5060, PS. 0.4705 AND PS. 0.4179 FOR EACH ACTUAL MINUTE FOR TELCEL AND TELEFONICA FOR 2008, 2009, 2010 AND 2011, RESPECTIVELY; AND PS. 0.6032 FOR EACH ACTUAL MINUTE FOR THE REST OF THE MOBILE CARRIERS. THE COMPANY'S MANAGEMENT BELIEVES THAT THE COMPANY HAS THE NECESSARY ELEMENTS TO PREVAIL UNDER THESE PROCEEDINGS BEFORE THE COURT, THEREFORE, SINCE AUGUST 2008 AND THEREAFTER, IT HAS RECOGNIZED THE COST BASED ON PS. 0.5465 PER EACH ACTUAL MINUTE FOR TELCEL AND PS. 0.6032 PER EACH MINUTE FOR THE REST OF THE MOBILE CARRIERS.

IN APRIL 2010, WITH RESPECT TO IUSACELL COURT CASE, A FEDERAL JUDGE ISSUED A RESOLUTION

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(IN FIRST INSTANCE) IN WHICH IT DETERMINED, THAT THE SCT WAS COMPETENT TO RESOLVE THE RESPECTIVE ADMINISTRATIVE REVIEW PROCEEDING FILED BY AXTEL, BUT INSTEAD OF HAVING DETERMINED DIRECTLY THE INTERCONNECTION RATES, THE SCT SHOULD HAVE PROVIDED GUIDELINES ON THIS MATTER TO COFETEL, IN ORDER FOR COFETEL TO ISSUE THE DISPUTED INTERCONNECTION TARIFFS. AFTERWARDS, A FEDERAL DISTRICT COURT DETERMINED ON THIS MATTER, THAT THE ADMINISTRATIVE REVIEW PROCEEDING HAD TO BE RESOLVED BY COFETEL, AND NOT BY THE SCT, BY MEANS OF WHICH, NOW COFETEL IS IN THE PROCESS OF ISSUING A NEW RULING ON THIS MATTER. THIS IMPLIES THAT THE SCT'S RESOLUTION REGARDING INTERCONNECTION RATES WAS REVOKED, AND REMITTED TO COFETEL FOR ITS DETERMINATION OF THE APPLICABLE INTERCONNECTION RATES. ON OCTOBER 20, 2010, COFETEL ISSUED RESOLUTION P/201010/492 BY MEANS OF WHICH, IT DETERMINED THE INTERCONNECTION TARIFFS APPLICABLE BETWEEN AXTEL AND TELEFONICA, FOR THE PERIOD 2008 - 2011, CONSIDERING THE SAME AMOUNTS ESTABLISHED BY THE SCT IN ITS RESOLUTION DATED SEPTEMBER 01, 2008, THIS IS, PS. 0.5465 PER ACTUAL MINUTE FOR THE YEAR 2008, PS. 0.5060 FOR THE YEAR 2009, PS. 0.4705 FOR THE YEAR 2010, AND PS.0.4179 FOR THE YEAR 2011.

ON FEBRUARY, 2012, THE SUPREME COURT OF JUSTICE RULED ON A PROCEDURAL MATTER, STATING THAT THE SCT HAD NO STANDING TO DECIDE THE REVIEW PROCEEDINGS FILLED BY AXTEL, AND THAT THE COFETEL IS THE AUTHORITY THAT SHOULD SOLVE THESE REVIEW PROCEDURES. BY MEANS OF THE ABOVE, COFETEL MUST, IN THE FOLLOWING MONTHS, DETERMINE YET AGAIN, THE INTERCONNECTION TARIFFS APPLICABLE BETWEEN AXTEL AND THE MOBILE SERVICE PROVIDERS, MENTIONED IN THE PRECEDENT PARAGRAPHS. THEREFORE, THE INTERCONNECTION TARIFFS THAT AXTEL HAS TO PAY TO THESE MOBILE SERVICE PROVIDERS, ARE NOT DEFINITELY DETERMINED, DUE TO THE FACT THAT THESE NEW RESOLUTIONS COULD BE, ONCE AGAIN, CONTESTED BY THE PARTIES.

AFTER EVALUATING THE ACTUAL STATUS OF THE FOREGOING PROCEEDINGS AND ACCORDING TO THE AVAILABLE INFORMATION AND INFORMATION PROVIDED BY THE LEGAL ADVISORS, MANAGEMENT OF THE COMPANY CONSIDERS THAT THERE ARE ENOUGH ELEMENTS TO MAINTAIN THE ACTUAL ACCOUNTING TREATMENT, AND THAT AT THE END OF THE LEGAL PROCESS THE INTERESTS OF THE COMPANY WILL PREVAIL.

THE COMPANY'S MANAGEMENT IS AWARE OF THE FACT THAT TELCEL, AS WELL AS THE OTHER MOBILE OPERATORS, HAVE ASKED THE FEDERAL COURTS FOR THE SUSPENSION OF THE PREVIOUSLY MENTIONED RESOLUTIONS BY THE SCT, BUT THE SUPREME COURT OF JUSTICE RULED THAT THE RESOLUTIONS REGARDING INTERCONNECTION TARIFFS CANNOT BE LEGALLY SUSPENDED.

DUE TO COFETEL RESOLUTION P/201010/492, WHEREBY THE INTERCONNECTION RATES APPLICABLE BETWEEN AXTEL AND TELEFONICA FOR THE PERIOD 2008 - 2011 WERE DETERMINED, THESE ARE THE CURRENT RATES BETWEEN TELEFONICA AND AXTEL. SUCH RATES ARE LOWER THAN THE INTERCONNECTION TARIFFS THAT WERE PREVIOUSLY PAID BY AXTEL TO TELEFONICA. TELEFONICA CONTESTED THIS RESOLUTION BY MEANS OF FILING A CONSTITUTIONAL TRIAL (JUICIO DE AMPARO), WHICH IS CURRENTLY AT ITS INITIAL STAGE WITH A FEDERAL DISTRICT JUDGE.

(B) IN MARCH 2009, THE COFETEL RESOLVED AN INTERCONNECTION DISAGREEMENT PROCEEDING EXISTING BETWEEN THE COMPANY (AXTEL) AND TELÉFONOS DE MÉXICO, S.A.B. DE C.V. ("TELMEX") RELATED TO THE RATES FOR THE TERMINATION OF LONG DISTANCE CALLS FROM THE COMPANY TO TELMEX WITH RESPECT TO YEAR 2009. IN SUCH ADMINISTRATIVE RESOLUTION, THE COFETEL APPROVED A REDUCTION IN THE RATES FOR TERMINATION OF LONG DISTANCE CALLS APPLICABLE TO THOSE CITIES WHERE TELMEX DOES NOT HAVE INTERCONNECTION ACCESS POINTS. THESE RATES WERE REDUCED FROM PS. 0.75 PER MINUTE TO US\$0.0105 OR US\$0.0080 PER MINUTE DEPENDING ON THE PLACE WHERE THE COMPANY DELIVERS THE LONG DISTANCE CALL.

UNTIL JUNE 2010, TELMEX BILLED THE COMPANY FOR THE TERMINATION OF LONG DISTANCE CALLS APPLYING THE RATES THAT WERE APPLICABLE PRIOR TO THE RESOLUTIONS MENTIONED ABOVE, AND AFTER SUCH DATE, TELMEX HAS BILLED THE RESULTANT AMOUNTS, APPLYING THE NEW INTERCONNECTION RATES. AS OF MARCH 31, 2012, THE DIFFERENCE BETWEEN THE AMOUNTS PAID BY

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THE COMPANY TO TELMEX ACCORDING TO THE NEW RATES, AND THE AMOUNTS BILLED BY TELMEX, AMOUNT TO APPROXIMATELY TO PS. 1,240 MILLION, NOT INCLUDING VALUE ADDED TAX.

TELMEX FILED FOR NULLIFICATION OF THE PROCEEDING WITH THE FEDERAL COURT OF TAX AND ADMINISTRATIVE JUSTICE (TRIBUNAL FEDERAL DE JUSTICIA FISCAL Y ADMINISTRATIVA) REQUESTING THE NULLIFICATION OF COFETEL'S ADMINISTRATIVE RESOLUTION. THE COMPANY (AXTEL AND AVANTEL) HAVE A CONTINGENCY IN CASE THAT THE FEDERAL TAX AND ADMINISTRATIVE COURT RULES AGAINST THE COMPANY, AND THAT AS A RESULT, ESTABLISHES DIFFERENT RATES COMPARED TO THOSE ESTABLISHED BY COFETEL. TELMEX OBTAINED A SUSPENSION FOR THE APPLICATION OF THE INTERCONNECTION RATES ESTABLISHED BY COFETEL, SUCH SUSPENSION CAME INTO EFFECT ON JANUARY 26, 2010, BUT CEASED TO BE IN FORCE AND EFFECT AS OF FEBRUARY 11, 2010, SINCE THE COMPANY DECIDED TO EXERCISE ITS RIGHT TO LEAVE WITHOUT EFFECT THE SUSPENSION BY GUARANTEEING ANY DAMAGES THAT COULD BE CAUSED TO TELMEX. NONETHELESS, THE COURT REVOKED TELMEX'S GUARANTEE, TAKING INTO CONSIDERATION THE ISSUANCE OF RESOLUTION P/140410/189, WHEREBY COFETEL RESOLVED THE SAME LOW RATES BETWEEN AXTEL AND TELMEX FOR THE YEAR 2010.

IN JANUARY 2010, THE COFETEL RESOLVED AN INTERCONNECTION DISAGREEMENT PROCEEDING EXISTING BETWEEN THE COMPANY (AVANTEL) AND TELMEX RELATED TO THE RATES FOR THE TERMINATION OF LONG DISTANCE CALLS FROM THE COMPANY TO TELMEX WITH RESPECT TO YEAR 2009. IN SUCH ADMINISTRATIVE RESOLUTION, THE COFETEL APPROVED A REDUCTION IN THE RATES FOR TERMINATION OF LONG DISTANCE CALLS APPLICABLE TO THOSE CITIES WHERE TELMEX DOES NOT HAVE INTERCONNECTION ACCESS POINTS. THESE RATES WERE REDUCED FROM PS. 0.75 PER MINUTE TO US\$0.0126, US\$0.0105 OR US\$0.0080 PER MINUTE, DEPENDING ON THE PLACE WHERE THE COMPANY DELIVERS THE LONG DISTANCE CALL. BASED ON THIS RESOLUTION, THE COMPANY PAID APPROXIMATELY PS. 20 MILLION IN EXCESS. TELMEX CHALLENGED THE RESOLUTION BEFORE THE FEDERAL COURT OF TAX AND ADMINISTRATIVE JUSTICE, AND SUCH PROCEEDING IS IN AN INITIAL STAGE.

ON MAY 2011, THE COFETEL ISSUED A RULING RESOLVING AN ADMINISTRATIVE REVIEW PROCEEDING REGARDING AN INTERCONNECTION DISAGREEMENT BETWEEN TELMEX AND THE COMPANY, RELATED TO THE TARIFF APPLICABLE TO THE TERMINATION OF LONG DISTANCE CALLS FROM THE COMPANY TO TELMEX, FOR THE YEAR 2011. IN SUCH ADMINISTRATIVE RESOLUTION, THE COFETEL APPROVED A REDUCTION OF THE TARIFFS APPLICABLE FOR THE TERMINATION OF LONG DISTANCE CALLS. THE ABOVE MENTIONED TARIFFS WERE REDUCED FROM US\$0.0126, US\$0.0105 OR US\$0.0080 PER MINUTE, TO PS.0.04530 AND PS.0.03951 PER MINUTE, DEPENDING ON THE PLACE IN WHICH THE COMPANY IS TO DELIVER THE LONG DISTANCE TRAFFIC. TELMEX CHALLENGED THIS RULING BEFORE THE SCT, BUT THE REQUEST WAS DISMISSED BY SUCH AUTHORITY. NOWADAYS, TELMEX CHALLENGED SUCH DISMISSAL, BEFORE THE FEDERAL COURT OF TAX AND ADMINISTRATIVE JUSTICE, AND SUCH PROCEEDING IS IN AN INITIAL STAGE.

THE COMPANY BELIEVES THAT THE RATES UNDER COFETEL RESOLUTION WILL PREVAIL, THEREFORE HAS RECOGNIZED THE COST BASED ON THE RATES APPROVED BY COFETEL. DUE TO THE FACT THAT THE PROCEEDINGS FOLLOWED BY TELMEX ARE RECENT, THE COMPANY AND ITS LEGAL ADVISORS ARE EVALUATING THE STEPS TO BE FOLLOWED.

AS OF DECEMBER 31, 2009, THERE WAS A LETTER OF CREDIT FOR U.S. \$34 MILLION ISSUED BY BANAMEX IN FAVOR OF TELMEX FOR THE PURPOSE OF GUARANTEEING THE COMPANY'S ACQUIRED OBLIGATIONS IN SEVERAL INTERCONNECTION AGREEMENTS. THE AMOUNTS UNDER THE LETTER OF CREDIT WERE DRAWN BY TELMEX IN THE MONTH OF JANUARY 2010, CLAIMING THAT AVANTEL HAD DEBTS WITH SUCH COMPANY. AS OF MARCH 31, 2012, AVANTEL HAS BEEN ABLE TO RECOVER PS.353,862 FROM THE AMOUNT MENTIONED ABOVE, THROUGH THE COMPENSATION COLLECTION WITH REGARD TO CERTAIN CHARGES FOR SERVICES RENDERED BY TELMEX TO AVANTEL ON A MONTHLY BASIS. THE REMAINING BALANCE OF PS. 181,471 IS RECOGNIZED IN THE "OTHER ACCOUNTS RECEIVABLE" LINE ITEM IN THE BALANCE SHEET.

(C) ON JANUARY 24, 2001, AN AGREEMENT WAS ENTERED INTO WITH GLOBAL TOWERS COMMUNICATIONS

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MEXICO, S. DE R.L. DE C.V. (FORMERLY SPECTRASITE COMMUNICATIONS MEXICO, S. DE R.L. DE C.V.), WITH EXPIRATION ON JANUARY 24, 2004, WHEREBY GLOBAL TOWERS WAS TO PROVIDE TO THE COMPANY WITH SERVICES FOR THE LOCATION, CONSTRUCTION, SETTING UP AND SELLING OF SITES WITHIN THE MEXICAN TERRITORY. AS PART OF THE OPERATION, THE COMPANY AGREED TO LEASE FROM GLOBAL TOWERS 650 SITES IN A TIME FRAME PERIOD OF THREE YEARS.

ON JANUARY 24, 2001, THE COMPANY RECEIVED 13 MILLION DOLLARS FROM GLOBAL TOWERS TO SECURE THE ACQUISITION OF THE 650 SITES AT 20,000 DOLLARS PER SITE. ACCORDING TO THE AGREEMENT, THESE FUNDS ARE NOT SUBJECT TO RESTRICTIONS WITH RESPECT TO THEIR USE AND DESTINATION. HOWEVER, THE AGREEMENT CONTEMPLATES THE PAYMENT OF INTEREST AT A PRIME RATE IN FAVOR OF GLOBAL TOWERS ON THE WARRANTY AMOUNT CORRESPONDING TO THE NUMBER OF SITES THAT AS OF JUNE 24, 2004, WERE NOT SOLD OR LEASED IN ACCORDANCE WITH THE TERMS OF THE AGREEMENT.

DURING 2002, SPECTRASITE COMMUNICATIONS MÉXICO, S. DE R.L. DE C.V., FILED AN ORDINARY MERCANTILE TRIAL AGAINST THE COMPANY BEFORE THE THIRTIETH CIVIL COURT, WHICH WAS FILED UNDER THE NUMBER 203/2002, CLAIMING THE REFUND OF THE GUARANTEE DEPOSIT FOR AN AMOUNT OF USD\$13,000,000 (THIRTEEN MILLION DOLLARS 00/100 US CURRENCY), PLUS INTEREST AND TRIAL-RELATED EXPENSES; THE COMPANY GAVE ANSWER TO THIS LAW SUIT, BY OPPOSING TO THE REIMBURSEMENT OF SUCH DEPOSIT, AND COUNTERCLAIMING FROM ITS NORTH AMERICAN HOLDING SPECTRASITE COMMUNICATIONS INC., THE PAYMENT OF ANY AND ALL LOSSES INCURRED TO AXTEL AS A RESULT OF THE UNLAWFUL TERMINATION OF THE AGREEMENT, MADE UNILATERALLY BY SPECTRASITE.

FINALLY, AFTER 3 AMPARO TRIAL RULINGS, ON DECEMBER 15 2011, WAS CONFIRMED THE RESOLUTION ISSUED BY THE THIRD CIVIL CHAMBER BY MEANS OF THE APPELLATE COURT FILE 1242/2008, ISSUED ON SEPTEMBER 22, 2010. DUE TO THE ABOVE SAID, THERE IS NO LIABILITY AGAINST AXTEL ARISING FROM THE AGREEMENT ENTERED WITH GLOBAL TOWERS.

ADDITIONALLY, GLOBAL TOWERS AND SPECTRASITE COMMUNICATRION INC., WERE CONDEMNED TO PAY TO AXTEL, THE AMOUNT OF USD\$13,000,000 (THIRTEEN MILLION DOLLARS 00/100 US CURRENCY), AS A RESULT OF DAMAGES CAUSED TO AXTEL, DUE TO THEIR NON-COMPLIANCE WITH THE OBLIGATION REGARDING TO THE CONSTRUCTION OR ACQUISITION FROM AXTEL, OF THE 650 SPECIFIC CONTRACTS, THAT CAME AS A RESULT OF THE UNLAWFUL TERMINATION OF THE AGREEMENT.

GLOBAL TOWERS COMMUNICATIONS MÉXICO, S. DE R.L. DE C.V., FORMERLY SPECTRASITE COMMUNICATIONS MÉXICO, S. DE R.L. DE C.V., AS WELL AS ITS AMERICAN HOLDING, WERE CONDEMNED TO THE PAYMENT OF INTERESTS IN FAVOR OF AXTEL, AT A RATE OF SIX PERCENT PER YEAR, ACCRUED SINCE THE 28 DAY OF FEBRUARY, 2002, DATE IN WHICH THE AGREEMENT WAS UNLAWFULLY TERMINATED.

AS OF THIS DATE, WE ARE CURRENTLY IN THE STAGE OF CLAIM OF THE AMOUNTS AWARDED IN FAVOR OF THE COMPANY.

(D) DURING SEPTEMBER AND NOVEMBER 2005, AVANTEL INFRAESTRUCTURA FILED A LAWSUIT AGAINST THE RESOLUTION OF THE "NEGATIVA FICTA" (AUTOMATIC NEGATIVE RULING AS A RESULT OF LACK OF ANSWER) WITH THE FEDERAL COURT OF TAX AND ADMINISTRATIVE JUSTICE ARISING FROM THE FACT THAT THERE WAS NO RESOLUTION DURING THE 3 MONTHS PERIOD AS STATED UNDER THE FEDERAL TAX CODE (CÓDIGO FISCAL DE LA FEDERACIÓN) WITH RESPECT TO THE REQUEST FOR A CONFIRMATION OF CRITERIA IN THE SENSE THAT AVANTEL INFRAESTRUCTURA IS NOT OBLIGED TO PAY DUTIES UNDER ARTICLE 232 SECTION I OF THE FEDERAL DUTIES LAW, WITH RESPECT TO THE USE OF EXCLUSIVE ECONOMIC GEOGRAPHIC ZONE IN MEXICO RELATED TO CERTAIN LANDING POINTS IN "PLAYA NIÑO", REGION 86, BENITO JUAREZ, ITANCAH TULUM, CARRILLO PUERTO, AND QUINTANA ROO.

THE SUIT WAS TURNED FOR STUDY AND RESOLUTION TO THE 5TH METROPOLITAN REGIONAL COURT OF

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# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: AXTEL

QUARTER: 01 YEAR: 2012

AXTEL, S.A.B. DE C.V.

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THE FEDERAL COURT OF TAX AND ADMINISTRATIVE JUSTICE, WHO DECLARED THE ANNULMENT OF THE "NEGATIVA FICTA", IN ORDER FOR THE AUTHORITY BEING SUED TO ISSUE ANOTHER RESOLUTION LEGALLY SUPPORTED, CONSIDERING THE TERMS OF THE RESOLUTION.

IN DISAGREEMENT WITH THE RULING PRONOUNCED BY THE FEDERAL COURT OF TAX AND ADMINISTRATIVE JUSTICE, AVANTEL INFRAESTRUCTURA FILED AN AMPARO DIRECTO (CONSTITUTIONAL REVIEW), WHILE AT THE SAME TIME, THE AUTHORITY STARTED A TAX REVIEW, PROCEEDINGS THAT WERE ALREADY RESOLVED, DETERMINING THE OBLIGATION OF AVANTEL TO PAY DUTIES FOR TO THE USE OF THE EXCLUSIVE ECONOMIC GEOGRAPHIC ZONE MENTIONED ABOVE, AT A RATE OF 7.5% OF THE VALUE DETERMINED BY THE ADMINISTRATION AND VALUATION OF NATIONAL PROPERTY INSTITUTE (INSTITUTO DE ADMINISTRACIÓN Y AVALUOS DE BIENES NACIONALES). THE ADMINISTRATION AND VALUATION OF NATIONAL PROPERTY INSTITUTE, ISSUED A MASTER VALUATION IN WHICH THE DISPUTED DUTIES FOR THE MARITIME CABLE WERE NOT INCLUDED.

CURRENTLY, WE ARE AWAITING FOR THE GENERAL MANAGEMENT OF PORTS OF THE DEPARTMENT OF COMMUNICATIONS AND TRANSPORTATION, TO SOLVE A CONSULTATION MADE BY THE COMPANY REGARDING TO THE AMOUNT THAT WE SHOULD PAY FOR THE CONCEPT OF DUTIES, CONSIDERING THE SURFACE THAT IS REALLY BEING OCCUPIED BY THE MARITIME CABLE UNDER THE TERRITORIAL SEA, IN ACCORDANCE WITH THE FEDERAL MARITIME LAW.

(E) THE COMPANY IS INVOLVED IN A NUMBER OF LAWSUITS AND CLAIMS ARISING IN THE NORMAL COURSE OF BUSINESS. IT IS EXPECTED THAT THE FINAL OUTCOME OF THESE MATTERS WILL NOT HAVE SIGNIFICANT ADVERSE EFFECTS ON THE COMPANY'S FINANCIAL POSITION AND RESULTS OF OPERATIONS.

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# MEXICAN STOCK EXCHANGE

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**AXTEL, S.A.B. DE C.V.**

## INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (THOUSAND PESOS)

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COMPANY NAME	PRICIPAL ACTIVITY	NUMBER OF SHARES	% OWNER SHIP	TOTAL AMOUNT	
				ACQUISITION COST	CURRENT VALUE
CONECTIVIDAD INALAMBRICA 7GHZ S. DE R.L.	SERVICIOS DE TELECOMUNICACIONES	2	50.00	24,497	9,649
<b>TOTAL INVESTMENT IN ASSOCIATES</b>				24,497	9,649

NOTES

# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**  
**AXTEL, S.A.B. DE C.V.**

QUARTER: **01** YEAR: **2012**

## BREAKDOWN OF CREDITS (THOUSAND PESOS)

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CREDIT TYPE / INSTITUTION	FOREIGN INSTITUTION (YES/NO)	CONTRACT SIGNING DATE	EXPIRATION DATE	INTEREST RATE	MATURITY OR AMORTIZATION OF CREDITS IN NATIONAL CURRENCY						MATURITY OR AMORTIZATION OF CREDITS IN FOREIGN CURRENCY					
					TIME INTERVAL						TIME INTERVAL					
					CURRENT YEAR	UNTIL 1 YEAR	UNTIL 2 YEAR	UNTIL 3 YEAR	UNTIL 4 YEAR	UNTIL 5 YEAR OR MORE	CURRENT YEAR	UNTIL 1 YEAR	UNTIL 2 YEAR	UNTIL 3 YEAR	UNTIL 4 YEAR	UNTIL 5 YEAR OR MORE
<b>BANKS</b>																
<b>FOREIGN TRADE</b>																
<b>SECURED</b>																
CREDITO SINDICADO	NOT	17/11/2011	17/11/2015	ENTRE 300 Y 450	0	0	48,220	96,441	72,331	0						
CREDITO SINDICADO	YES	17/11/2011	17/11/2015	ENTRE 300 Y 450							0	0	126,482	252,964	189,723	0
<b>COMMERCIAL BANKS</b>																
<b>OTHER</b>																
<b>TOTAL BANKS</b>					0	0	48,220	96,441	72,331	0	0	0	126,482	252,964	189,723	0





MEXICAN STOCK EXCHANGE

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**BREAKDOWN OF CREDITS**  
 (THOUSAND PESOS)

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CREDIT TYPE / INSTITUTION	FOREIGN INSTITUTION (YES/NO)	DATE OF AGREEMENT	EXPIRATION DATE	MATURITY OR AMORTIZATION OF CREDITS IN NATIONAL CURRENCY						MATURITY OR AMORTIZATION OF CREDITS IN FOREIGN CURRENCY					
				TIME INTERVAL						TIME INTERVAL					
				CURRENT YEAR	UNTIL 1 YEAR	UNTIL 2 YEAR	UNTIL 3 YEAR	UNTIL 4 YEAR	UNTIL 5 YEAR OR MORE	CURRENT YEAR	UNTIL 1 YEAR	UNTIL 2 YEAR	UNTIL 3 YEAR	UNTIL 4 YEAR	UNTIL 5 YEAR OR MORE
<b>OTHER CURRENT AND NON-CURRENT LIABILITIES WITH COST</b>															
OTROS PASIVOS CON COSTO	NOT			147,660	50,759	130,104	87,344	639	0						
OTROS PASIVOS CON COSTO	NOT									61,145	102,609	72,286	33,885	0	0
<b>TOTAL OTHER CURRENT AND NON-CURRENT LIABILITIES WITH COST</b>				147,660	50,759	130,104	87,344	639	0	61,145	102,609	72,286	33,885	0	0
<b>SUPPLIERS</b>															
PROVEEDORES	NOT			0	1,156,831										
PROVEEDORES	NOT									0	647,120				
PROVEEDORES	YES									0	298,414				
<b>TOTAL SUPPLIERS</b>				0	1,156,831					0	945,534				
<b>OTHER CURRENT AND NON-CURRENT LIABILITIES</b>															
OTROS PASIVOS	NOT			417,394	408,002	328,692	0	0	0						
OTROS PASIVOS	NOT									61,746	13,538	739	0	0	0
<b>TOTAL OTHER CURRENT AND NON-CURRENT LIABILITIES</b>				417,394	408,002	328,692	0	0	0	61,746	13,538	739	0	0	0
<b>GENERAL TOTAL</b>				565,054	1,615,592	507,016	183,785	72,970	0	122,891	1,061,681	199,507	286,849	189,723	9,794,984

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# MEXICAN STOCK EXCHANGE

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## MONETARY FOREIGN CURRENCY POSITION

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(THOUSAND PESOS)

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FOREIGN CURRENCY POSITION (THOUSANDS OF PESOS)	DOLLARS		OTHER CURRENCIES		THOUSAND PESOS TOTAL
	THOUSANDS OF DOLLARS	THOUSAND PESOS	THOUSANDS OF DOLLARS	THOUSAND PESOS	
<b>MONETARY ASSETS</b>	67,896	869,340	0	0	869,340
CURRENT	67,896	869,340	0	0	869,340
NON CURRENT	0	0	0	0	0
<b>LIABILITIES POSITION</b>	910,320	11,655,635	0	0	11,655,635
CURRENT	92,517	1,184,572	0	0	1,184,572
NON CURRENT	817,803	10,471,063	0	0	10,471,063
<b>NET BALANCE</b>	<b>-842,424</b>	<b>-10,786,295</b>	<b>0</b>	<b>0</b>	<b>-10,786,295</b>

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**DEBT INSTRUMENTS**

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## **FINANCIAL LIMITATIONS IN CONTRACT, ISSUED DEED AND / OR TITLE**

ISSUED INDEBTEDNESS DUE IN FEBRUARY 2017 AND SEPTEMBER 2019 (SENIOR NOTES) CONTEMPLATES ONLY ONE FINANCIAL COVENANT, WHICH IS TO HAVE:

1. A RATIO OF TOTAL DEBT TO ADJUSTED EBITDA OF NO MORE THAN 4 TIMES.

SINDICATED CREDIT AGREEMENT WITH BANAMEX, CREDIT SUISSE, BANORTE, ING AND STANDARD BANK INCLUDES THE FOLLOWING FINANCIAL RATIOS:

1. DEBT SERVICE, WHICH IS TO HAVE A RATIO OF TOTAL DEBT TO ADJUSTED EBITDA OF NO MORE THAN 3.5 TIMES.

2. INTEREST COVERAGE CONSISTS IN MAINTAINING A RATIO OF ADJUSTED EBITDA TO INTEREST EXPENSE HIGHER THAN THREE TIMES.

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# MEXICAN STOCK EXCHANGE

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## **ACTUAL SITUATION OF FINANCIAL LIMITED**

THE COMPANY IS IN COMPLIANCE WITH ALL COVENANTS

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# MEXICAN STOCK EXCHANGE

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**AXTEL, S.A.B. DE C.V.**

## DISTRIBUTION OF REVENUE BY PRODUCT

**CONSOLIDATED**

**TOTAL INCOME  
(THOUSAND PESOS)**

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MAIN PRODUCTS OR PRODUCT LINE	NET SALES		MARKET SHARE (%)	MAIN	
	VOLUME	AMOUNT		TRADEMARKS	CUSTOMERS
<b>NATIONAL INCOME</b>					
SERVICIOS LOCALES	0	916,924	0		
SERVICIOS DE L.D.	0	302,910	0		
DATOS	0	685,384	0		
TRAFICO INTL.	0	200,841	0		
OTROS SERVICIOS	0	396,485	0		
<b>EXPORT INCOME</b>					
<b>INCOME OF SUBSIDIARIES ABROAD</b>					
<b>TOTAL</b>	<b>0</b>	<b>2,502,544</b>			

**NOTES**

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: AXTEL  
 AXTEL, S.A.B. DE C.V.

QUARTER: 01 YEAR: 2012

ANALYSIS OF PAID CAPITAL STOCK  
 CHARACTERISTICS OF THE SHARES

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SERIES	NOMINAL VALUE	VALID COUPON	NUMBER OF SHARES				CAPITAL STOCK	
			FIXED PORTION	VARIABLE PORTION	MEXICAN	FREE SUBSCRIPTION	FIXED	VARIABLE
A	0.00000	0	96,636,627	0	96,636,627	0	73,012	0
B	0.00000	0	8,672,716,596	0	0	8,672,716,596	6,552,524	0
<b>TOTAL</b>			8,769,353,223	0	96,636,627	8,672,716,596	6,625,536	0

TOTAL NUMBER OF SHARES REPRESENTING THE PAID IN CAPITAL STOCK ON THE DATE OF SENDING THE INFORMATION

8,769,353,223

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# MEXICAN STOCK EXCHANGE

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**DERIVATIVE FINANCIAL INSTRUMENTS**

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AXTEL, S.A.B. DE C.V. REPORTS THEIR OPERATIONS WITH FINANCIAL DERIVATIVE INSTRUMENTS, COMPLEMENTARY TO THE 1ST QUARTER FINANCIAL INFORMATION REPORT:

QUALITATIVE AND QUANTITATIVE INFORMATION:

DERIVATIVES POLICY

AXTEL, S.A.B. DE C.V. (" THE COMPANY OR AXTEL ") 'S INTERNAL POLICY IS TO CONTRACT DERIVATIVE INSTRUMENTS TO MITIGATE PRIMARILY EXCHANGE AND INTEREST RATE RISK EXPOSURE WITH RESPECT TO OUR FOREIGN CURRENCY OBLIGATIONS OR COMMITMENTS CONTRACTED IN CURRENCIES DIFFERENT THAN THE MEXICAN PESO.

THE STRATEGY OF THE COMPANY DEPENDS ON THE PARTICULAR RISK TO BE HEDGED, IN ACCORDANCE TO THE ESTABLISHED POLICY. WE PREFER INSTRUMENTS THAT COMPLY WITH IFRS OF THE INTERNATIONAL FINANCIAL INFORMATION RULES AS HEDGE INSTRUMENTS, ALTHOUGH OTHER INSTRUMENTS CAN BE CONSIDERED ALSO AS LONG AS SUCH INSTRUMENTS REDUCE AXTEL'S RISKS AGAINST ITS FOREIGN CURRENCY EXPOSURE. ONCE DEFINED THE TYPE OF FINANCIAL INSTRUMENT TO BE USED, THE COMPANY DEALS WITH INTERNATIONAL COUNTERPARTIES ON THE OVER THE COUNTER MARKET ("OTC"). THE COUNTERPARTY MUST HAVE INVESTMENT GRADE BY THE MAJOR RATING AGENCIES OR MET AXTEL'S INTERNAL TREASURY POLICIES. THE COMPANY REQUESTS AT LEAST TWO QUOTES FROM COUNTERPARTIES. THESE ARE COMPARED AND ANALYZED UNDER THE PARAMETERS OF THE FINANCIAL INFORMATION STANDARD (IFRS), AND THEN THE MOST COMPETITIVE IS SELECTED. ALL THE OPERATIONS MUST BE AUTHORIZED BY THE FINANCE, TREASURY AND INVESTOR RELATIONS DIRECTOR.

THE VALUATION AGENTS ARE ESTABLISHED IN THE CONTRACT OF FINANCIAL DERIVATIVE INSTRUMENTS OR INTERNATIONAL SWAP DERIVATIVES ASSOCIATION, ("ISDA") AND THEIR SCHEDULES. THESE DOCUMENTS CONTAIN THE TERMS AND CONDITIONS AND THE REQUIRED DOCUMENTATION FOR EACH TRANSACTION, SUCH AS: PAYMENT DATES, CALCULATION AGENT, DEFAULTS, CURRENCY OF DELIVERY, MARGIN CALLS AND APPLICABLE LEGISLATION AMONG OTHERS. IN ORDER TO DETERMINE THE MARK TO MARKET ON A SPECIFIC DATE, THE COMPANY REALIZES THEIR OWN VALUATIONS EXTRACTING ECONOMIC INFORMATION FROM SPECIALIZED SOURCES SUCH AS REUTERS, BLOOMBERG, BANXICO'S WEB PAGE, AND OTHER FINANCIAL INSTITUTIONS.

DURING THE 1ST QUARTER 2012 SOME HEDGE TRANSACTIONS WERE TRADED BY THE COMPANY AS FOLLOWS:

HEDGE OF COUPONS 2019 BOND WITH CITIBANK-BANAMEX COUNTERPARTY ON A NOTIONAL \$ 200 MILLION FOR INTEREST TO BE PAID IN THE YEAR 2015.

HEDGE OF COUPONS 2017 BOND WITH CITIBANK-BANAMEX COUNTERPARTY ON A NOTIONAL \$ 100 MILLION FOR INTEREST PAYABLE IN YEAR 2015.

HEDGE OF PRINCIPAL AND INTEREST OF THE TERM LOAN WITH CREDIT SUISSE AS COUNTERPARTY ON A TOTAL OF 34.5 MILLION DOLLARS FOR A TERM OF THREE YEARS (FROM NOVEMBER 2012 TO NOVEMBER 2015).

HEDGE OF PRINCIPAL AND INTEREST OF THE TERM LOAN WITH BANORTE-IXE COUNTERPART OF A TOTAL OF 10 MILLION DOLLARS FOR A TERM OF THREE YEARS (FROM NOVEMBER 2012 TO NOVEMBER 2015).

MARGIN CALLS, COLLATERAL AND CREDIT LINES.

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MARGINS CALLS AND COLLATERALS ARE ESTABLISHED ALSO IN THE ISDA AGREEMENT. THESE ARE ESTABLISHED BY THE COUNTERPARTIES DEPENDING ON THE AUTHORIZED CREDIT LINES AND DETERMINED THRESHOLD LIMITS. THE COMPANY DOES NOT OPERATE WITH COUNTERPARTIES THAT DO NOT OFFER REASONABLE LINES RELATIVE TO THE SIZE OF THE TRANSACTION CLOSED. A TRANSACTION IS NOT NEGOTIATED WITH A COUNTERPARTY THAT DOES NOT OFFER A SUFFICIENT LINE RELATED TO THAT SPECIFIC HEDGE.

THE COMPANY HAS FOUR MILLION THREE HUNDRED THOUSAND DOLLARS POSTED AS COLLATERAL AS OF MARCH 31ST.2012, MAINLY DUE TO THE APPRECIATION OF THE PESO AGAINST DE US DOLLAR. THESE MARGIN CALLS ARE HELD BY 2 COUNTERPARTIES (3.65 MILLION BY DEUTSCHE BANK AND 0.65 MILLION BY MORGAN STANLEY), IT SHOULD BE NOTED THAT THE COMPANY HAS NOT INCURRED IN ANY VIOLATION WITH RESPECT TO A MARGIN CALLS MADE BY COUNTERPARTIES DESCRIBED IN THIS DOCUMENT

## LEVELS OF AUTHORIZATION

THE AUTHORIZED OFFICERS TO CLOSE DERIVATIVE TRANSACTIONS ARE THE FINANCE, TREASURY AND INVESTOR RELATIONS DIRECTOR, WITH APPROVAL OF THE CHIEF FINANCIAL OFFICER. DEPENDING ON THE NOTIONAL AMOUNT OF EACH TRANSACTION, THE INTERNAL TREASURY COMMITTEE IS INFORMED AND SUBSEQUENTLY APPROVES CERTAIN TRANSACTIONS, ACCORDING TO AXTEL'S INTERNAL TREASURY POLICIES. THE PROCEDURE OF EVERY OPERATION IS REALIZED WITH TWO OR MORE QUOTES WHICH ARE SHOWN BY THE FINANCE, TREASURY AND INVESTOR RELATIONS DIRECTOR TO THE CHIEF FINANCIAL OFFICER WHO DECIDES TO PROCEED OR NOT WITH SUCH OPERATION.

## PROCEDURES OF INTERNAL CONTROL

ONCE THE TRANSACTION IS CLOSED, THE COUNTERPARTY SEND A CONFIRMATION WHICH SPECIFIES THE TERMS AND CONDITIONS OF THE DEAL TO THE COMPANY. THE COMPANY'S TREASURY DEPARTMENT ("TREASURY") REVIEWS IT AND SENDS IT TO THE ACCOUNTING DEPARTMENT FOR ITS PROPER REGISTRATION.

IN ORDER TO KEEP CONTROL OVER EACH TRANSACTION, ON A MONTHLY BASIS, TREASURY EXECUTES VALUATIONS TO DETERMINE THE MARK TO MARKET AND THE EFFECTIVENESS OF THE DERIVATIVE INSTRUMENTS. THESE VALUATIONS ARE PERFORMED WITH TESTS ESTABLISHED IN THE IFRS. ONCE THIS VALUATIONS ARE MADE, THE INFORMATION IS PASSED ALONG TO THE ACCOUNTING DEPARTMENT FOR PROPER REGISTRATION IN THE BOOKS. ON A QUARTERLY BASIS, OUR EXTERNAL AUDITORS REVIEW THE ABOVE MENTIONED RECORDS APPLYING THEIR OWN VALUATION AND CALCULATION METHODS.

## EXTERNAL REVIEW

KPMG CARDENAS DOSAL, S.C., THE COMPANY'S EXTERNAL AUDITORS, REVIEWS PERIODICALLY THE VALUATION AND ACCOUNTING RECORDS OF THESE OPERATIONS.

## VALUATION TECHNIQUES

THE VALUATION OF DERIVATIVE INSTRUMENTS WITH HEDGING PURPOSES IS REALIZED USING ITS FAIR VALUE METHOD.

IT SHOULD BE NOTED THAT BECAUSE SUCH ASSESSMENTS ARE MADE ABOVE ACCORDING TO INTERNATIONAL STANDARDS IFRS, THE MARKET VALUE REGISTERED BY THE COMPANY INCLUDE COUNTERPARTY RISK, FOR THAT REASON AND IN CASE THE MARKET VALUE IS IN FAVOR OF AXTEL (ASSET) THIS INCLUDES THE CDS OF THE COUNTERPARTY, AND IF THE MARKET VALUE IS IN FAVOR OF THE COUNTERPARTY (LIABILITY) THE RECORD INCLUDES COUNTERPARTY RISK IN THE RECORD AXTEL (Z-SPREAD).

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WITH THE PURPOSE OF MONITORING THE EFFECTIVENESS OF DERIVATIVES WITH HEDGING PURPOSES, PROSPECTIVE (ANALYSIS OF LINEAR REGRESSION) AND RETROSPECTIVES (PERIODIC OR ACCUMULATED COMPENSATION) TESTS ARE REALIZED USING STATISTICAL SAMPLES OF MARKET VARIABLES (INTEREST AND EXCHANGE RATES), IN ACCORDANCE TO THE IFRS. THIS TECHNIQUE ALLOWS THE MONITORING OF THE DERIVATIVE INSTRUMENTS' PERFORMANCE AND THE LIKELIHOOD THAT A PARTICULAR DERIVATIVE INSTRUMENT COULD NOT BE TREATED AS A HEDGE INSTRUMENT IN THE FUTURE.

AXTEL PREPARES ITS OWN VALUATIONS, WHICH IS COMPARED AGAINST THE COUNTERPARTY'S VALUATION. IF THERE IS A SIGNIFICANT DIFFERENCE, FURTHER CLARIFICATION IS REQUESTED.

IN ORDER TO DETERMINE THE EFFECTIVENESS OF THE HEDGING, THE METHOD OF PERIODIC COMPENSATION IS USED.

AT LEAST ONCE A YEAR, THE EXTERNAL AUDITORS OF THE COMPANY (KPMG CARDENAS DOSAL, S.C) REVIEW THE DERIVATIVE INSTRUMENTS ACCOUNTING RECORDS AND VALIDATE THEIR EFFECTIVENESS IN ACCORDANCE WITH THE IFRS.

SOURCES OF LIQUIDITY.

MOST OF COMPANY'S REVENUES ARE PESOS DENOMINATED. WITH THE PURPOSE OF ELIMINATING THE RISK ASSOCIATED OF HAVING REVENUES IN PESOS AND INTEREST PAYMENT OBLIGATIONS IN DOLLARS ASSOCIATED WITH THE SENIOR NOTES (SEE "DEBT PROFILE"), THE COMPANY ENTERED INTO "INTEREST ONLY SWAPS" AND FX FORWARDS, WHEREBY, THE COMPANY EFFECTIVELY LOCKS THE ABOVE MENTIONED INTEREST PAYMENTS INTO PESOS, MET WITH THE CASH FLOW GENERATED BY ITS OPERATION.

THE COMPANY HAS LINES OF CREDIT FOR THIS TYPE OF INSTRUMENTS FOR APPROXIMATELY \$29 MILLION DOLLARS GRANTED BY THE RESPECTIVE COUNTERPARTIES.

CHANGES IN THE RISK EXPOSURE

THE RISKS THAT ARE IDENTIFIED ARE: THE DECREASE OF THE EXCHANGE RATE FOR ALL THE DERIVATIVE INSTRUMENTS. IT IS IMPORTANT TO MENTION THAT REGARDING THE MXN APPRECIATION DURING THE THIRD QUARTER OF 2012, THE COMPANY WAS REQUIRED BY COUNTERPARTIES TO POST AN ADDITIONAL 2.2 MILLION DOLLAR OF COLLATERAL (MARGING CALL) THEREFORE THERE WERE MARGIN CALLS FOR DURING THE QUARTER.

QUANTITATIVE INFORMATION (FIGURES EXPRESSED IN THOUSANDS EXCEPT THAT ANOTHER REFERENCE IS INDICATED).

AS OF MARCH 30TH, 2012, THE FAIR VALUE OF THE DERIVATIVE INSTRUMENTS CONTRACTED, NET FROM THE VALUE OF THE EMBEDDED DERIVATIVES, AND REPRESENTS A LIABILITY OR SHORT POSITION OF \$106.7 MILLION. DETAILS OF THE DERIVATIVE INSTRUMENTS OF THE 1ST QUARTER 2012 ARE DISCLOSED IN THE FOLLOWING TABLE:

HEDGE TYPE	NOCIONAL AMOUNT	FAIR VALUE		CREDIT LINE
		ACTUAL Q	ANTERIOR Q	
1 FX FWD STRIP	3,038,750	25,790,516	18,639,866	15,000.00
2 FX FWD STRIP	2,884,605	4,167,549	98,431,200	15,000.00
3 FX FWD STRIP	2,479,600	(3,750,279)	50,650,291	15,000.00
4 SWAP	614,113	(33,838,474)	(1,629,845)	15,000.00
5 SWAP	464,368	(8,588,529)	-	15,000.00

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## DERIVATIVE FINANCIAL INSTRUMENTS

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6 FX FWD STRIP	928,575	(9,136,748)	7,638,620	7,000.00
7 FX FWD STRIP	861,250	(8,032,398)	7,013,266	7,000.00
8 FX FWD STRIP	1,310,000	(5,117,291)	-	7,000.00
9 FX FWD STRIP	1,280,000	(4,082,348)	-	7,000.00
10 FX FWD STRIP	1,258,000	(7,752,968)	-	7,000.00
11 CROSS CURRENCY SWAP	325,250	(34,272,229)	(1,350,549)	-
12 FX FWD STRIP	1,320,200	(14,358,033)	(9,753,620)	-
13 FX FWD STRIP	657,575	(3,600,199)	(4,154,192)	7,000.00
14 FX FWD STRIP	314,975	(4,166,183)	2,537,858	7,000.00

ALL OPERATIONS DESCRIBED IN THE ABOVE TABLE ARE FOR HEDGING PURPOSES. THE REFERENCE VARIABLE FOR ALL TRANSACTIONS IS \$12.8039 FOR THE CURRENT QUARTER, AND 13.9904 FOR THE PREVIOUS QUARTER

ANNUAL FLOWS PAYABLE ON DERIVATIVE FINANCIAL INSTRUMENTS (AMOUNTS IN THOUSANDS OF PESOS) :

COUNTERPARTY	PRINCIPAL	2012	2013	2014	2015
1 CREDIT SUISSE	2,884,605	195,259	195,259	195,259	
2 CREDIT SUISSE	2,479,600	28,459			
3 CREDIT SUISSE	614,113		132,340	132,340	132,340
4 CREDIT SUISSE	464,368	36,611	73,222	36,611	
5 CITIBANK BANAMEX	928,575	74,903	74,903	74,903	
6 CITIBANK BANAMEX	861,250				115,235
7 CITIBANK BANAMEX	1,310,000				97,630
8 CITIBANK BANAMEX	1,280,000				115,235
9 CITIBANK BANAMEX	1,258,000	28,809	28,809	28,809	
10 MORGAN STANLEY	325,250	115,235	115,235	115,235	
11 DEUTSCHE BANK	1,320,200	57,618	57,618	57,618	
12 BOFA-MERRIL LYNCH	657,575	28,809	28,809	28,809	
13 BOFA-MERRIL LYNCH	314,975		38,412	38,412	38,412
14 BANORTE-IXE	128,250	259,279	259,279	259,279	

ANNUAL FLOWS RECEIVABLE ON DERIVATIVE FINANCIAL INSTRUMENTS (AMOUNTS IN THOUSANDS) :

COUNTERPARTY	PRINCIPAL	2012	2013	2014	2015
1 CREDIT SUISSE	225,000	259,279	259,279	259,279	
2 CREDIT SUISSE	200,000	195,259	195,259	195,259	
3 CREDIT SUISSE	44,453	28,459			
4 CREDIT SUISSE	34,453		132,340	132,340	132,340
5 CITIBANK BANAMEX	75,000	36,611	73,222	36,611	
6 CITIBANK BANAMEX	65,000	74,903	74,903	74,903	
7 CITIBANK BANAMEX	100,000				115,235
8 CITIBANK BANAMEX	100,000				97,630
9 CITIBANK BANAMEX	100,000				115,235
10 MORGAN STANLEY	25,000	28,809	28,809	28,809	
11 DEUTSCHE BANK	100,000	115,235	115,235	115,235	
12 BOFA-MERRIL LYNCH	50,000	57,618	57,618	57,618	
13 BOFA-MERRIL LYNCH	25,000	28,809	28,809	28,809	
14 BANORTE-IXE	10,000		38,412	38,412	38,412

SENSIBILITY ANALYSIS:

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AXTEL'S DERIVATIVE INSTRUMENTS HAVE BEEN EFFECTIVE, AND IT IS EXPECTED THAT IT WILL CONTINUE TO BE ACCORDING TO THE REGRESSION ANALYSIS REALIZED ON MARCH 31ST, 2012.

IN CARRYING OUT THE QUARTERLY PROSPECTIVE EFFECTIVENESS TEST, THE DATA USED WAS FOR THE LAST 20 WEEKS PRIOR TO THE DATE OF EACH QUARTERLY ANALYSIS.

AXTEL HAS THE SUPPORT OF THE EXTERNAL AUDITOR, WHO REVIEWS THE COMPLIANCE OF THE INTERNAL POLICY, AND MAKES SURE THAT THE RESULTS ARE REASONABLE.

IT IS IMPORTANT TO MENTION THAT NONE OF THE OPERATIONS OF DERIVATIVE INSTRUMENTS CONTRACTED BY AXTEL PUTS THE COMPANY'S OPERATION AT RISK, GIVEN THAT THE NATURE OF THE INSTRUMENTS ARE TO REDUCE THE EXCHANGE AND INTEREST RATES EXPOSURE IN A FOREIGN CURRENCY.

HOWEVER THE COMPANY CONDUCTS ITS TESTS OF EFFECTIVENESS IN ACCORDANCE WITH APPLICABLE ACCOUNTING STANDARDS, OR TESTS WERE CONDUCTED ANALYSIS OF "STRESS" OR SENSITIVITY TAKING INTO ACCOUNT THE RISK IN HERE WITHIN DERIVATIVE CONTRACTS BY THE COMPANY, WHOSE VARIABLE FOR THE SAME WOULD BE SHARP APPRECIATION IN THE PESO DOLLAR, WHICH COULD AFFECT THE MARKET VALUE THEREOF. THESE TESTS WERE CONDUCTED UNDER THREE DIFFERENT SCENARIOS:

- 1) APPRECIATION OF 5% IN THE PESO/DOLLAR EXCHANGE RATE AT THE END OF 1ST QUARTER (12.1637)
- 2) APPRECIATION OF 10% IN THE PESO/DOLLAR EXCHANGE RATE AT THE END OF 1ST QUARTER (11.5235)
- 3) APPRECIATION OF 15% IN THE PESO/DOLLAR EXCHANGE RATE AT THE END OF 1ST QUARTER (10.8833)

THE ESTIMATED MARKET VALUES WITH THE DIFFERENT SCENARIOS WHEREAS FOLLOWS (FIGURES IN THOUSANDS OF PESOS):

COUNTERPARTY	TERM	CONTRACTED		ESTIMATED FV		
		FX	ACTUAL	5%	10%	15%
CREDIT SUISSE	SEMIANNUAL	12.8200	25,791	(3,780)	(34,990)	(66,199)
CREDIT SUISSE	SEMIANNUAL	12.3980	4,168	(22,612)	(46,195)	(69,779)
CREDIT SUISSE	QUARTERLY	13.8149	(3,750)	(4,503)	(5,443)	(6,383)
CREDIT SUISSE	QUARTERLY	13.4783	(33,838)	(50,665)	(66,589)	(82,514)
CITIBANK BANAMEX	SEMIANNUAL	12.3810	(8,588)	(17,385)	(25,125)	(32,866)
CITIBANK BANAMEX	SEMIANNUAL	13.2500	(9,136)	(16,005)	(23,886)	(31,766)
CITIBANK BANAMEX	SEMIANNUAL	13.1000	(8,032)	(10,999)	(15,031)	(19,063)
CITIBANK BANAMEX	SEMIANNUAL	12.8000	(5,117)	(7,879)	(11,349)	(14,818)
CITIBANK BANAMEX	SEMIANNUAL	12.5800	(4,082)	(7,230)	(11,261)	(15,293)
MORGAN STANLEY	SEMIANNUAL	13.0900	(7,752)	(2,003)	(5,348)	(8,692)
DEUTSCHE BANK	SEMIANNUAL	13.2020	(34,272)	(40,683)	(52,806)	(64,930)
BOFA-MERRIL LYNCH	SEMIANNUAL	13.1515	(14,358)	(19,491)	(25,552)	(31,614)
BOFA-MERRIL LYNCH	SEMIANNUAL	12.5990	(3,600)	(6,261)	(9,292)	(12,322)
BANORTE-IXE	QUARTERLY	12.8250	(4,166)	(8,829)	(13,451)	(18,073)
<b>TOTALES</b>			<b>(106,737)</b>	<b>(218,330)</b>	<b>(346,324)</b>	<b>(449,673)</b>

SUMMARY BY COUNTERPARTY:

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COUNTERPARTY	MARKET VALUE	5% SCENARIO 1 CREDIT LINE	MARGING CALL
CREDIT SUISSE	(81,561)	192,058.50	-
CITIBANK BANAMEX	(59,501)	89,627.30	-
MORGAN STANLEY	(2,004)	0	(2,004)
DEUTSCHE BANK	(40,683)	0	(40,683)
BOFA-MERRIL LYNCH	(25,752)	89,627.30	-
BANORTE-IXE	(8,829)	-	-
TOTALES	(218,330)	371,313.10	(42,687)

COUNTERPARTY	MARKET VALUE	10% SCENARIO 2 CREDIT LINE	MARGING CALL
CREDIT SUISSE	(153,218)	192,058.50	-
CITIBANK BANAMEX	(86,655)	89,627.30	-
MORGAN STANLEY	(5,348)	-	(5,348)
DEUTSCHE BANK	(52,807)	-	(52,807)
BOFA-MERRIL LYNCH	(34,845)	89,627.30	-
BANORTE-IXE	(13,452)	-	-
TOTALES	(346,325)	371,313.10	(58,155)

COUNTERPARTY	MARKET VALUE	15% SCENARIO 3 CREDIT LINE	MARGING CALL
CREDIT SUISSE	(224,876)	192,058.50	-
CITIBANK BANAMEX	(113,809)	89,627.30	-
MORGAN STANLEY	(8,693)	-	(8,693)
DEUTSCHE BANK	(64,930)	-	(64,930)
BOFA-MERRIL LYNCH	(19,292)	89,627.30	-
BANORTE-IXE	(18,074)	-	-
TOTALES	(449,673)	371,313.10	(73,623)

**RESULTS PER SCENARIO:**

1) IN AN APPRECIATION IN THE EXCHANGE RATE OF 5% OR 12.1637 PESOS PER USD, THE MARGIN CALL WOULD BE 42.6 MILLION PESOS, OR 3.5 MILLION USD.

2) IN AN APPRECIATION IN THE EXCHANGE RATE OF 10% OR 11.5235 PESOS PER USD, THE MARGIN CALLS WOULD BE 58.2 MILLION PESOS OR 5.0 MILLION USD.

3) AND FINALLY TO AN APPRECIATION IN THE EXCHANGE RATE OF 15% TO 10.8833 PESOS PER USD, THE MARGIN CALLS WOULD BE 73 MILLION PESOS OR 6.7 MILLION USD.

THIS CONCLUDES THAT WHILE A STRONG APPRECIATION IN THE EXCHANGE RATE WOULD NOT AFFECT LIQUIDITY FOR THE COMPANY, WE WITHOUT THREATENING THE VIABILITY OF AXTEL, ON THE OTHER HAND, BOTH INVESTMENT IN CAPEX AND PRINCIPAL OF DEBT DENOMINATED IN U.S. DOLLARS WOULD OFFSET THESE MOVEMENTS IN THE EXCHANGE RATE.

BELOW ARE THE DETAILS OF THE DERIVATIVE INSTRUMENTS FROM THE COMPANY AS WELL AS THE MARK TO MARKET AND THE FINANCIAL STATEMENTS CORRESPONDING TO MARCH 31ST, 2012:

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COUNTERPARTY	PRINCIPAL THOUSAND	AXTEL PAYS	PERIOD	PRINCIPAL THOUSAND	AXTEL RECEIVES
PESOS		DOLLARS			
CREDIT SUISSE	3,038,750	8.43	SEMESTRAL	275,000	7.625
CREDIT SUISSE	2,884,605	9.06	SEMESTRAL	225,000	9.00
CREDIT SUISSE	2,479,600	8.16	SEMESTRAL	200,000	7.625
CREDIT SUISSE	614,113	5.06	TRIMESTRAL	44,453	LIBOR + 400
CREDIT SUISSE	464,368	11.63	TRIMESTRAL	34,453	LIBOR + 400
CITIBANK BANAMEX	928,575	8.57	SEMESTRAL	75,000	7.63
CITIBANK BANAMEX	861,250	9.62	SEMESTRAL	65,000	9.00
CITIBANK BANAMEX	1,310,000	10.63	SEMESTRAL	100,000	9.00
CITIBANK BANAMEX	1,280,000	8.99	SEMESTRAL	100,000	7.63
CITIBANK BANAMEX	1,258,000	9.06	SEMESTRAL	100,000	9.00
MORGAN STANLEY	325,250	10.08	SEMESTRAL	25,000	9.00
DEUTSCHE BANK	1,320,200	10.11	SEMESTRAL	100,000	9.00
BOFA-MERRIL LYNCH	657,575	10.08	SEMESTRAL	50,000	9.00
BOFA-MERRIL LYNCH	314,975	9.98	SEMESTRAL	25,000	9.00
BANORTE-IXE	128,250	11.1100	TRIMESTRAL	10,000	LIBOR + 400

COUNTERPARTY	PERIOD	EX. RATE	STARTING DATE	ENDING DATE	MTM THOUSAND OF PESOS
CREDIT SUISSE	SEMESTRAL	11.05	29/11/2011	02/02/2012	0
CREDIT SUISSE	SEMESTRAL	12.8200	13/12/2010	22/09/2014	25,791
CREDIT SUISSE	SEMESTRAL	12.3980	13/12/2010	02/08/2014	4,168
CREDIT SUISSE	TRIMESTRAL	13.8149	30/11/2011	20/11/2012	(3,750)
CREDIT SUISSE	TRIMESTRAL	13.4783	06/01/2012	20/11/2015	(33,838)
CITIBANK BANAMEX	SEMESTRAL	12.3810	21/10/2010	02/08/2014	(8,588)
CITIBANK BANAMEX	SEMESTRAL	13.2500	19/10/2011	22/09/2014	(9,136)
CITIBANK BANAMEX	SEMESTRAL	13.1000	25/01/2012	22/09/2015	(8,032)
CITIBANK BANAMEX	SEMESTRAL	12.8000	02/02/2012	02/08/2015	(5,117)
CITIBANK BANAMEX	SEMESTRAL	12.5800	13/03/2012	22/09/2015	(4,082)
MORGAN STANLEY	SEMESTRAL	13.0900	14/10/2009	22/09/2014	(7,752)
DEUTSCHE BANK	SEMESTRAL	13.2020	11/11/2009	22/09/2014	(34,272)
BOFA-MERRIL LYNCH	SEMESTRAL	13.1515	17/11/2009	22/09/2014	(14,358)
BOFA-MERRIL LYNCH	SEMESTRAL	12.5990	11/03/2010	22/09/2014	(3,600)
BANORTE-IXE	TRIMESTRAL	12.8250	17/02/2012	20/11/2015	(4,166)
TOTAL					(106,738)

**PRESENTATION OF THE FINANCIAL STATEMENTS:**

ASSET ACCOUNT "DERIVATIVE INSTRUMENTS" (MARK TO MARKET): \$29,958 (SEE LINE 11060020 OF THE BALANCE SHEET).

LIABILITIE ACCOUNT "DERIVATIVE INSTRUMENTS" (MARK TO MARKET): \$136,696 (SEE LINE 21060020 OF THE BALANCE SHEET).

EQUITY ACCOUNT "ACCUMULATED EFFECT BY VALUATION OF DERIVATIVE INSTRUMENTS": \$195,437 (SEE LINE 30090050 OF THE BALANCE SHEET).

DEBIT TO THE COMPREHENSIVE FINANCIAL RESULT FOR "VARIATION OF THE FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS": \$14,334 (SEE LINE 40080050 OF THE INCOME STATEMENTS).

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