2013 AXTEL
ANNUAL INTEGRATED REPORT

axtel ®

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LETTER FROM THE CHIEF EXECUTIVE OFFICER 1.1

During 2013 we achieved positive results stemming from a recapitalization plan started in 2012 and successfully carried out in 2013. The improvement in our capital structure was translated into greater flexibility in channeling the necessary investments to continue carrying out our key strategic initiatives and improving our financial results.

Among the key actions we carried out stand out the operational efficiency initiatives and the recapitalization plan through non-strategic asset divestment and exchange of debt bonds, achieving a net debt reduction of more than USD 300 million which enables us to continue investing in the execution of our business strategy.

Likewise, our approach is achieving a greater market share in ICT solutions in offerings for enterprises and government and the deployment of the direct optical fiber network in homes or businesses for the high value mass market, were the spearhead to improve the results in the year.

During 2013 we developed a new generation of products and services to satisfy our clients' needs.

In the consumption market, we launched AXTEL Pay TV Service on the optical fiber coverage. We also expanded the coverage of our (FTTx) fiber network into new cities, which has enabled us to offer triple play services, that is, Internet, television and telephone, in eight of the main cities in México. During 2013 we were also able to consolidate more than 65 thousand points for WiFi X-tremo access in the cities with FTTx coverage, which offers our clients Internet coverage outside of their homes. The aforementioned, together with the existing service offering enabled us to increase our subscriber database for broadband in almost 50 percent, besides achieving 61 thousand clients for Pay TV Service in only 11 months after being launched.

On the other hand, in the business and government segments we continue aligning our IT convergence strategy with communications, becoming evident in the launch of new products and services such as Integral Business Safety, Private Cloud Collaboration and AXTEL Track. Likewise, in 2013 we focused on strengthening our infrastructure to provide ICT services where the end of the expansion and strengthening of the Monterrey Data Center outstands and the creation, through an alliance, of a new Data Center strategically located in the State of México.

We constantly work to maintain our operation under a frame of actions integrated toward sustainability. Our social accountability and corporate governance practices enabled us to be included in the Mexican Stock Exchange Sustainability Index (Sustainable IPC). We also received the distinction as Socially Responsible Enterprise granted by CEMEFI for the sixth consecutive year, and the ESR Distinction from Value Chain for the fourth year, through which we support a group of PyMES suppliers in their social accountability process.

We continue working to maintain high standards as employers. For this reason we continue with the activities in the Integral Collaborator Agenda, through which we promote activities focused on health, education and family integration areas for our 6 thousand 791 collaborators. At the same time, we continue implementing our energy savings campaigns and recycling, electronic invoicing and the good environmental practices which led us to obtain the Environmental Quality certification, granted by PROFEPA, organization part of SEMARNAT.

On the other hand, at AXTEL Foundation our actions have been focused on supporting education projects, entrepreneurship, support to youths in a social risk situation, strengthening the family and community participation.

For the third consecutive year we reassured our commitment with the United Nations Global Compact, through which we are committed to meeting its 10 principles related with human rights, fight against corruption, labor regulations and environment.

With the previous activities and our effort to continuously improve the AXTEL experience, our company enjoys financial health today and a clear and better focused strategic vision, which enables us to maintain our development and continue being a profitable company.

We reaffirm our commitment with our clients, shareholders and stakeholders. We thank our collaborator's effort, thanks to whom it is possible to be successful in our company and we are committed to continue working under a philosophy focused on the long term permanence of our business.

Tomás Milmo Santos
Chairman of the Board of Directors and Chief Executive Officer

OUTSTANDING RESULTS IN 2013

43 BILLION MXN

INVESTED HISTORICALLY IN INFRASTRUCTURE

39 CITIES

WITH THEIR OWN AXTEL NETWORK

200 CITIES

WITH AXTEL CONNECTIVITY SERVICE

13 THOUSAND 780 KILOMETERS

OF OPTICAL FIBER NETWORK

6 THOUSAND 791

DIRECT JOBS

20 THOUSAND

INDIRECT JOBS CREATED

EMPRESA SOCIALMENTE RESPONSABLE

APOYAMOS EL PACTO GLOBAL

AXTEL

01

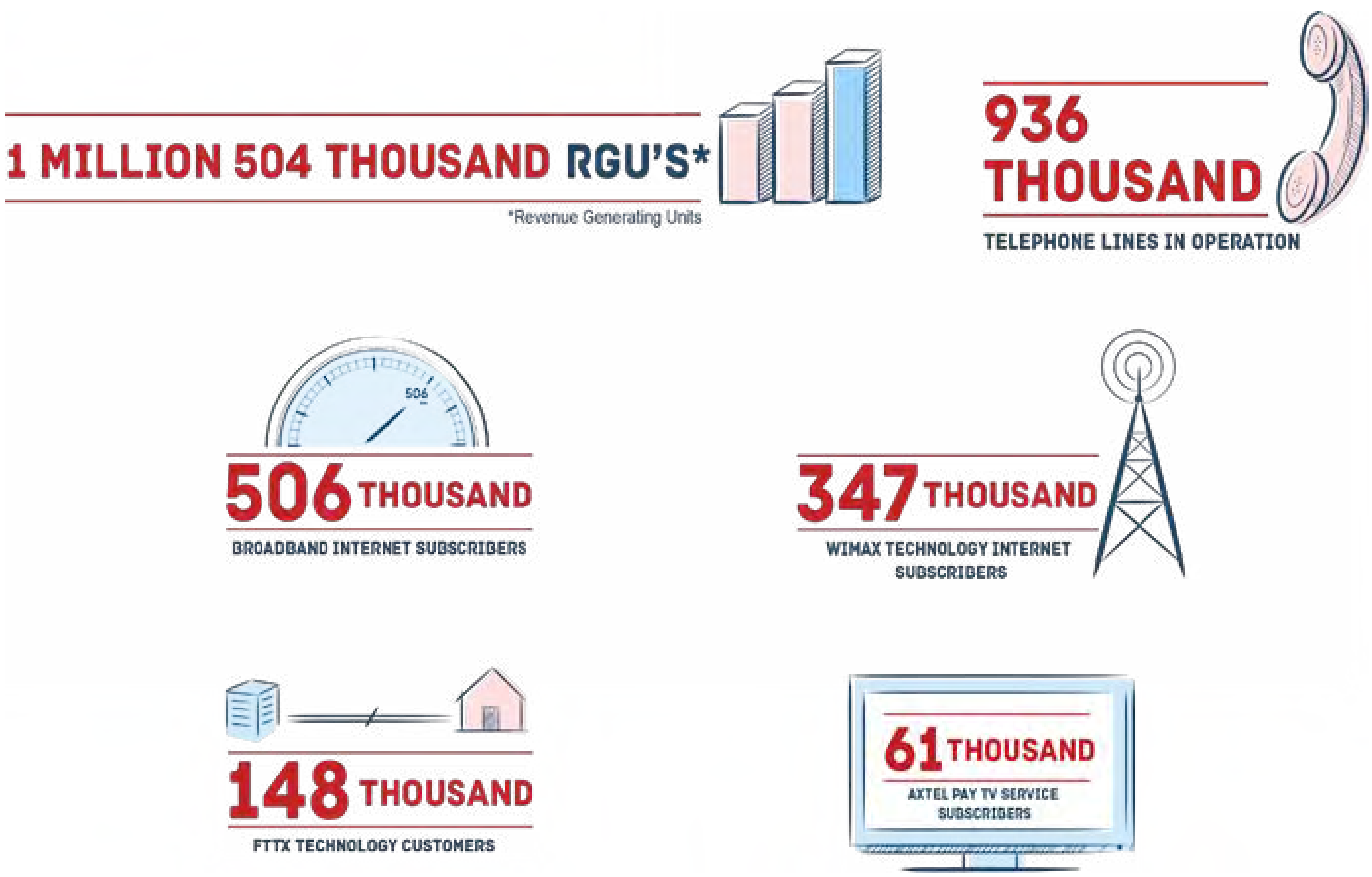
COMPANY PROFILE

AXTEL profile 2.1 / 2.4 / 2.5 / 2.8 / 4.8

WE ARE THE SECOND LARGEST OPERATOR FOR FIXED TELEPHONY AND LONG DISTANCE IN MÉXICO.

AXTEL is the Mexican telecommunications enterprise with the fastest Internet service in México, supplier of the most advanced pay TV service in Latin America and one of the leading companies in Information Technology and Communication (ICT) solutions in the corporate, financial, and governmental sectors.

We offer integral communication services such as high speed broadband, pay TV Service, data transmission and implementation of virtual private networks, Internet page hosting, data centers, managed security, services for other telecommunications operators and voice services, among others.



WE ARE A PUBLIC ENTERPRISE LISTED IN THE MEXICAN STOCK EXCHANGE (BMV) SINCE 2005, OPERATING UNDER THE "AXTEL CPO" SYMBOL. FOR THE SECOND CONSECUTIVE YEAR WE WERE PART OF SUSTAINABLE IPC AT BMV FOR THE JANUARY 2014 - 2015 PERIOD, THANKS TO THE RESULTS ACHIEVED IN 2013.

Our culture and values distinguish us:

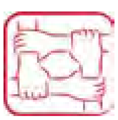
Mission

"Improve communication to enhance life."

Vision

"Innovating communication experiences that bring people closer to what they care the most for."

Values



Commitment
Honoring promises.

Honesty
Respecting truthfulness.

Service
Excellence and attitude in doing something for others.

Communication
Improving the quality of our dialogue at every moment.

Innovation
Making new ideas into a reality: transforming life.

If you wish to learn more about the values, please go to *www.axtel.mx/sustentabilidad*

Corporate governance

2.3 / 2.6 / 4.1 / 4.2 / 4.3 / 4.4 / 4.5 / 4.6 / 4.7 / 4.9 / 4.10 / LA13

The strategy in our business is led by a group of board members who manage the operation and growth of AXTEL on sound principles and values.

Our corporate governance reports on the principles of accountability, equality, openness, and transparency, with the purpose of improving performance at AXTEL and ensuring sustainability in the future.

Managing, identification and mitigation of potential risks to which the Company is exposed and supervising compliance of the current laws, including the Securities Market Law (LMV) are among the main functions of the Board of Directors.

This Board is led by our Chairman and Chief Executive Officer. It currently comprises 10 owner board members and 9 alternate directors, out of which two are women, not exceeding a maximum of 21 owner members in accordance to the provisions of the Securities Market Law and the Company Bylaws. The board members are designated by the shareholders in the Ordinary General Stockholders' Meeting and their retribution is determined by the Stockholders of the Company. By the end of 2013, the total compensation paid to the executives and Board members was approximately $95 million MXN.

In compliance with the applicable legislation and the Company Bylaws, the Board members remain in office 30 days after their resignation or until the Board member designated as replacement is in office.

The information of the executive officers of the Board of Directors of AXTEL* is the following:

** The business address for each officer, director, and alternate directors is located in Blvd. Díaz Ordaz km. 3.33 L-1, Col. Unidad San Pedro, San Pedro Garza García, N.L., México, CP 66215.*

Tomás Milmo Santos

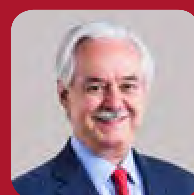
Founder member and Chief Executive Officer at AXTEL. Member of the Board of directors since 1994 and Chairman of the Board of Directors since 2003. He is member of the Board of Directors at CEMEX, at Instituto Tecnológico y de Estudios Superiores de Monterrey and in Promotora Ambiental, S.A.B. de C.V. He is Chairman of the Board of Tec Salud and Alianza Educativa Ciudadana por Nuevo León. He holds a degree in Business Economics from Stanford University.

Alberto Santos Boesch

Has been Director since April 2013, was alternate director for Alberto Santos de Hoyos (†) since June 2005. Has been Chief Executive Officer at Empresas Santos since 2000. He is shareholder and director at Grupo Tres Vidas Acapulco S.A. Likewise he is Director at Grupo Maseca, Interpuerto de Monterrey, Santos y de la Garza Evia Foundation, Nuevo Amanecer Institute, UDIA A.C. and En Nuestras Manos. He has a Degree in International Studies from Universidad de Monterrey and has international studies in Cushing Academy.

Thomas Lorenzo Milmo Zambrano

He has been a Director at the Company since July 22, 1994 and was Chairman of the Board of Directors since 1997 through 2003. He was co-founder and Chairman of the Board of Directors at Grupo Javer, S.A. de C.V., one of the largest housing development companies in México, and Incasa, S.A. de C.V., one of the largest aggregate producers in México. He was Chairman of the Board of Directors and CEO at Carbonífera de San Patricio S.A. de C.V. and Carbón Industrial, S.A. de C.V. Likewise, he was Director of CEMEX until 1996.



Lorenzo H. Zambrano Treviño

Has been a Director at AXTEL since October 1997. He is Chairman of the Board of Directors and Chief Executive Officer of CEMEX, one of the main global companies in the construction materials industry. Likewise, he is a member of the Board of Directors of IBM; and serves as part of the Board of Museo de Arte Contemporáneo de Monterrey (MARCO) and was Chairman of the Board of Sistema Tecnológico de Monterrey from 1997 through 2012. He holds a B.S. in Mechanical Engineering from Instituto Tecnológico y de Estudios Superiores de Monterrey and has a Master's in Business Administration from Stanford University.

Patricio Jiménez Barrera

Was Chief Financial Officer at AXTEL from 1998 through 2009. Has been a Director at AXTEL since November 2005. Prior to working in AXTEL he held several finance-related positions, including investment banker at Invermexico Casa de Bolsa, treasurer at Grupo CYDSA, and again investment banker at Banca Serfín, S.A., where he was Director of International Banking and Treasury. Currently he is member of the Board of Directors of Sociedad Financiera de Crédito Popular Nacional and of Operadora de Servicios Mega, and Chief Executive Officer at Abstrix, S.A. de C.V. He is a CPA and holds a degree from Instituto Tecnológico y de Estudios Superiores de Monterrey.

Alberto Garza Santos

Has been Director at AXTEL since October 2003. He is founder, Chairman of the Board of Directors and Chief Executive of Promotora Ambiental S.A. de C.V., and likewise member of the Board of Directors at Maquinaria Diesel S.A. de C.V. (MADISA), Desarrollos Delta S.A de C.V. and SUPERA. He is Chairman of the Foundation Mundo Sustentable; served as Chairman of the Advisory Board of Parque Ecológico Chipinque. He holds a degree in Business Administration from Instituto Tecnológico y de Estudios Superiores de Monterrey and a graduate degree in Political Sciences from Southern Methodist University.

Héctor Medina Aguiar[1]

Has been a Director at AXTEL since October 2003 and is member of the Audit and Corporate Practices Committee. He was Executive Vice-President of Finance and Legal at CEMEX through February 2010, when he retired. Before he worked at Grupo ALFA. He was Chairman of the Directive Board of Universidad Regiomontana until April 2012 and was member of the Surveillance Board at Instituto Tecnológico de Monterrey until 2011. He is member of the Board of Directors of different public and private enterprises. He graduated from Instituto Tecnológico y de Estudios Superiores de Monterrey as Chemical Engineer. He also holds a Master's in Management from the University of Bradford Management Centre in England and a M.S. degree from Escuela de Organización Industrial in Spain.

Bernardo Guerra Treviño[1]

He is member of the Board of Directors at AXTEL since 2006 and Chairman of the Audit and Corporate Practices Committee. He is a founder partner of Morales y Guerra Capital Asesores (MG Capital), and member of the Board of Directors of Promotora Ambiental and Banco Ahorro FAMSA. He received a degree in Industrial Engineering and Systems from Instituto Tecnológico y de Estudios Superiores de Monterrey.

Lawrence H. Guffey[1]

Has been member of the Board of Directors at AXTEL since March 2001. He is member of the Audit and Corporate Practices Committee. Likewise, he is Administrative Director at Blackstone Group International. Before joining Blackstone he worked in the Acquisitions Group at Trammell Crow Ventures, the main investment arm at Trammell Crow Company. He is Member of Cineworld Group PLC, Deutsche Telekom and TDC. Graduated from Rice University.

Fernando A. González Olivieri

Is member of the Board of Directors at AXTEL since April 2010. Since he started his career in CEMEX in 1989, he has held different Senior positions, including Corporate Vice-President of Strategic Planning; President of CEMEX Venezuela; President of CEMEX Asia; President of CEMEX South America and the Caribbean; President of CEMEX Europe, Middle East, Africa, Asia, and Australia; Executive Vice-President for Planning and Development and Executive Vice-President for Planning and Finance. He is currently serving as Executive Vice-President of Finance and Administration. He received his degree and Master's in Administration from Instituto Tecnológico y de Estudios Superiores de Monterrey.

Thomas Westermann[2]

He is Alternate Director for Laurence H. Guffrey since April 2013. He is Analyst at Davidson Kempner Capital Management. Has worked in Blackstone, J.P. Morgan, The Boston Consulting Group and Booz & Co. Hs a Master's in Administrative Sciences and Engineering from Stanford University and a B.S in Engineering and Applied Mathematics from the Technical University in Denmark.

Alicia Santos Boesch

Has been Alternate Director for Alberto Santos Boesch since April 2013. Holds a degree in International Relations from UDEM. Has also carried out studies in Marketing in the University of California (UCLA) Is member of the Board in Grupo Sonoma and different social organizations.

Francisco Javier Garza Zambrano

Has been Alternate Director for Lorenzo Zambrano Treviño since June 2005. Has held the position as President of the America region for CEMEX, as well as President for CEMEX México, CEMEX Panama, and Venezolana de Cementos (Vencemos, S.A.); and has also been Vice-President at CEMEX Trading and President in charge of CEMEX operations in the United States. He is President at Grupo XIGNUX, ASUR, Grupo CYDSA, GP Construcciones, Universidad de Monterrey, among others. He holds a degree in Business Administration from Instituto Tecnológico y de Estudios Superiores de Monterrey and has a Master's in Business Administration from Cornell University - Johnson Graduate School of Management.

David Garza Santos

Has been Alternate Director for Alberto Garza Santos since November 2005. He is Chairman of the Board of Directors and Chief Executive of Maquinaria Diesel, S.A. de C.V., a company which distributes Caterpillar, Ingersoll Rand and other construction equipment. He is also Chairman of the Board of Directors of Comercial Essex, S.A. de C.V., which is the most important distributor in México of Exxon Mobile lubricants. He is part of the Board of Administration of Desarrollos Delta, S.A. de C.V., a real estate developer in the residential market, offices and resorts, and is also a member of the Board of Directors of Promotora Ambiental, S.A. de C.V., leading company in México in waste Management. He is member of the Advisory Board of the School of Business Management at Instituto Tecnológico y de Estudios Superiores de Monterrey. He holds a degree in Business Management from that institute.

Balbina Milmo Santos

She is Alternate Director for Thomas Milmo Zambrano since April 2007. She holds a degree in Graphic Design from the Instituto de Arte y Restauración de Florencia, Italia She also has studies at Escuela de Diseño Chamberlayne in Boston, United States She has lead several activities as entrepreneur.

Mauricio Morales Sada[2]

Has been Alternate Director for Bernardo Guerra Treviño since April 2006. He is President and founder member of MG Capital, an independent investment management since 1995. From 1984 to 1995 he held different Senior positions in banks and brokerage houses in México. He received the degree for Mechanical Engineer and Administration from Instituto Tecnológico y de Estudios Superiores de Monterrey, and is currently member of the Executive Committee of the Business Development Program in the same institution.

Andrés Velázquez Romero

He is the Executive Director for Entrepreneurial Market and Government. He is Alternate Director at AXTEL since March 2007. He has been Executive Director since 2004, responsible for the Process Transformation and Information Technology, Mass Market, as well as Business Market in different periods. Before joining AXTEL, he worked in the financial sector, risk management, credit, financing, correspondent banking, international treasury, and foreign exchange. He was also COO at Banca Serfín New York Agency. He holds a degree in Economics from Instituto Tecnológico Autónomo de México in México City.

Ramiro G. Villarreal Morales

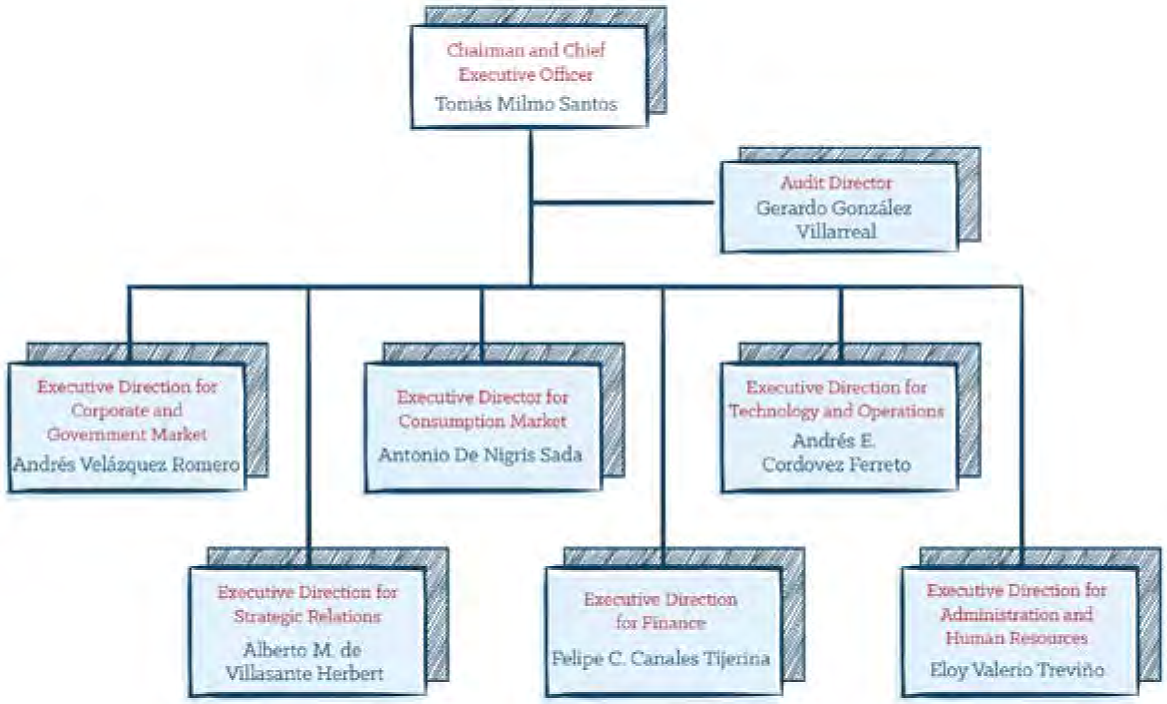
He is Alternate Director for Fernando A. Gonzalez Olivieri since April 2011 and was previously Alternate Director for Héctor Medina Aguiar since April 2006. He is Chief Legal Officer at CEMEX since 1987. He also serves as Secretary of the Board of Directors of CEMEX since 1995. From 1985 thru 1987 he held the position of Assistant General Director of Grupo Financiero Banpaís (now part of Banco Mercantil del Norte S.A.). He received his degree in Law from Universidad Autónoma de Nuevo León and a Master's in Finance from University of Wisconsin.

Alberto de Villasante Herbert

He has been Executive Director of Strategic Relations and is Alternate Director of AXTEL since March 2007. Prior to his current position, he was Vice-President of Negotiations, Alliances and Institutional Relations. Previously he held different positions in Xignux including the Direction at Multilec. He is Member of the Board at Concresa S.A de C.V. and Productora de Terrasos S.A. de C.V. Has a degree in Marketing from Instituto Tecnológico y de Estudios Superiores de Monterrey and a Master's in Public Accounting, Administration and Total Quality.

1 Independent Board Member
2 Alternate Member of the Audit and Corporate Practices Committee

Executive team 2.3



Among the key obligations and duties of the Board of Directors we find establishing and managing the business strategy; the approval of policies, guidelines and representative operations; assigning the Chief Executive Officer; policies for loans and collaterals; the guidelines in regards to controls and internal auditing; the accounting policies; the financial statements; submitting reports to the General Stockholders Meeting; among others.

In the selection of our Board Members, their expertise, capability and professional prestige are considered and their development is assessed at least once a year. Board Members, as well as the Audit Committee and Corporate Practices Committee are organized in order to comply with the Stock Market Law (LMV).

The Auditing and Corporate Practices Committee reports directly to the Board of Directors and is formed by three independent directors. Its main functions are overseeing the administrative and financial execution at AXTEL Likewise, recommending the Internal and External Auditing areas the actions to be carried out in regards to the significant financial matters of the company.

In order to avoid conflict of interest in the highest governance body at AXTEL we adhere to the Securities Market Act (LMV) meeting the required percentage of independent directors. Likewise the Audit and Corporate Practices Committee, the Internal Auditor and External Auditor ensure that, in case of conflict of interests, the corresponding Director will refrain from participating in the corresponding voting.

Communication of the executives with the Board of Directors is established through this Committee, or through the Investors Relations area, which receives the comments and/or recommendations that our stakeholders wish to make to the members of the Board. The e-mail to send comments is: *ir@axtel.com.mx*

Risk management 1.2 / 4.11 / SO2

The appropriate risk management is a key aspect in ensuring permanence of our business in the future. The Internal Audit area, reporting to AXTEL General Director, is the body responsible for monitoring the Internal Control System through which the financial and non-financial processes of the business are evaluated.

A Risk Analysis was carried out, based on the Business Strategy, in order to identify the processes that impact directly the goals established. There were 17 relevant risks identified in 19 processes reviewed in 100 percent, without detecting important failures which impact compliance of the Strategic Objectives of the Enterprise.

Additionally, we have a corruption risk map, which considers those business units which have the greatest exposure to these kinds of risks. Each risk was reviewed 100 percent, without detecting corruption cases.

Both risk maps serve as the foundation to determine the Audit Plan for the corresponding period, which focuses on ensuring:

- Operational efficiency and continuity.
- Reliability and integrity in operational and financial information of the company.
- Safeguarding the company assets.
- Compliance of existing laws and regulations.
- Detection of important failures in internal control and timely information for its correction.

Main focus for 2013	Desired Results	Status
Focus on processes and risk levels according to strategic initiatives in the company.	Efficiency and effectiveness in alignment of the risk analysis with the strategic initiatives of the business to provide greater value to the results obtained.	Alignment of risk analysis with corporate strategy, generating actions and control implementation to this end.
Focus and risk mitigation regarding new projects and products.	Increasing new product efficiency and ensure ROI and its profitability.	Increasing process and key activity efficiency in regards to new product service, investment, and profitability.
Increase in dissemination of anonymous denouncing lines.	Maintaining optimum trust levels in company collaborators.	Active collaborator participation through different denouncing lines.
Laws and regulations.	A reform which regulates fair competition to broadcast national and local open television content without generating cost for AXTEL.	Thanks to the Reform, content of national and local open TV content was released for all AXTEL clients.
Regulations.	CFE not offering telecommunications service to Federal Government, since this entity is Carrier of Carriers and not final service supplier.	Dispute at the Communications Department, Federal Telecommunications Institute (IFT) and Congress, so there is fair competition generated.

Business ethics 4.6 / HR2 / HR4 / SO3 / SO4

Our commitment with ethical behavior and transparency, and anti-corruption is permanent. In AXTEL ***we reject corruption in all its forms, including extortion and bribery*** ***PMNU 10.***

In 2013 we continued reinforcing communication and knowledge of AXTEL Ethics Code among collaborators and suppliers. The topics addressed by the AXTEL Code of Ethics* are: behavior at work; communication; conflict of interests; personnel hiring; honesty, loyalty and integrity; confidential information; safety in the job; relationship with clients, community, government and suppliers; promotion and sales; and environmental accountability.

The effort to train our collaborators in the Ethics and Good Practices course through AXTEL Virtual University started since 2012 and its content comprised topics related with our Anti-corruption Policy, No-Gift Policy, and Transparency Mailbox Policy. Since the beginning of these programs, 7 thousand 236 collaborators have registered to the Ethics course, while one thousand 138 have gone through the Good Practices course. By the end of 2013, one thousand 244 people are in the process of finishing Ethics, while 240 the Good Practices course.

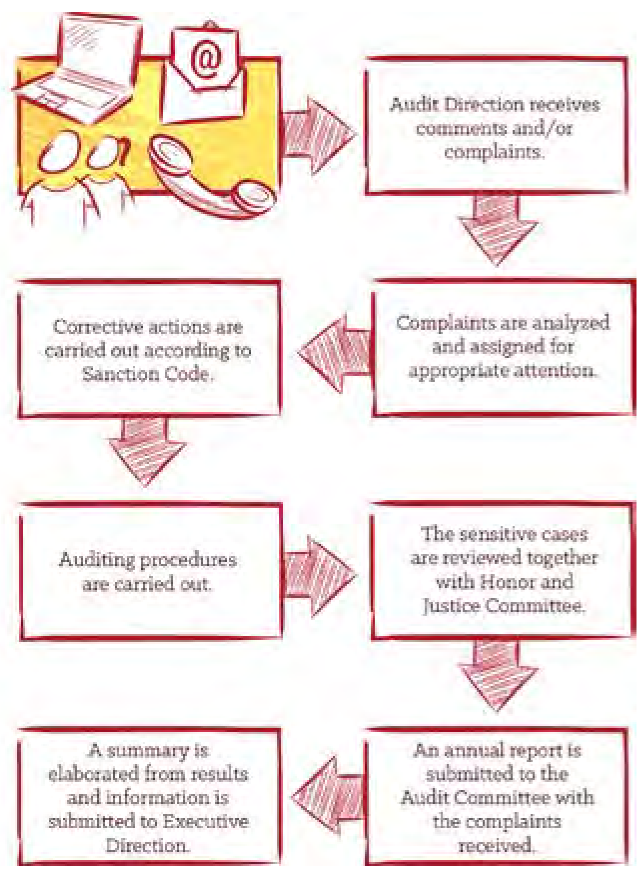
Likewise, all the new incoming collaborators receive training on these subjects and regarding Human Rights compliance. All our collaborators have the knowledge and must adhere to our Anti-corruption and No Gift Policies and the Transparency Mailbox.

The AXTEL Transparency Mailbox is the ethical management tool which enables us to receive denounces from our stakeholders regarding actions or situations which go against the organizational values or AXTEL Ethics Code.

The Internal Audit Direction is the body responsible for receiving, giving follow-up and appropriate solution to the reports made, which can be given anonymously or personally. These denounces are treated confidentially, in all cases. When these cause controversy, they are reviewed together with the Honor and Justice Committee comprised by the Legal Director, Human Resources Director, and Audit Director.

The key objectives of the Transparency Mailbox are:

- Receiving, maintaining and treating the denounces received in the company in regards to accounting, internal control, violations to the Ethics Code, asset robbery or abuse, inappropriate use of privileged information, bribery, policy non-compliance, among them the Non-Gift, Anti-corruption and Suppliers, and activities that may be assumed fraudulent.
- Providing the complainant total certainty regarding treatment and confidentiality of his/her report through the Transparency Mailbox.
- Protecting any revenge or retaliation action to people who report any irregularity in good faith.



*To learn about the complete content of the document to inquire *www.axtel.mx/sustentabilidad*

The contact lines to receive complaints 24/7/365 a year* are:

Toll-free number:
01 800 087 0909

E-mail:
transparenciaaxtel@axtel.com.mx

In our corporate offices with the Audit Director and/or Manager of Corporate Governance

During 2013 we received 127 complaints, 25 of which were founded and 102 were unfounded as faults against the Ethics Code, nevertheless they were processed and follow-up given to 100 percent of them. Out of the founded complaints such as faults to the Ethics Code, 22 percent were solved by the end of 2013, and 3 percent are in the process of being solved.

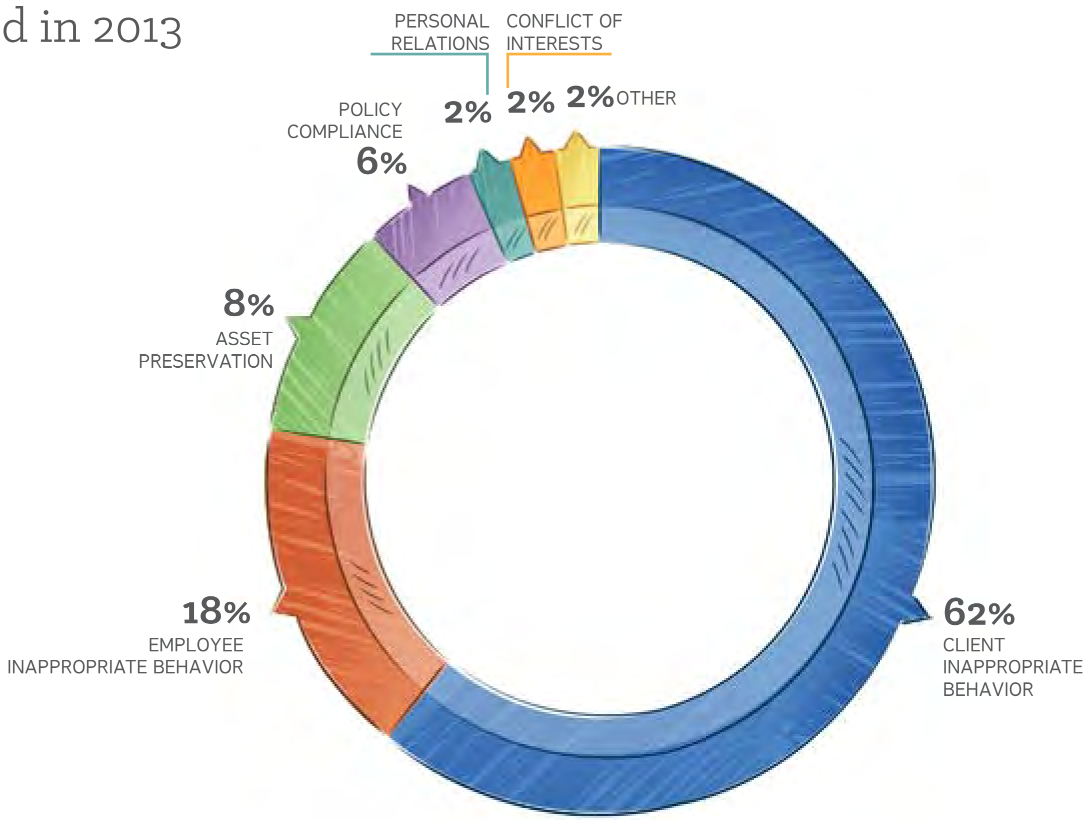
Out of the complaints received, none was related to corruption actions. Corrective actions were taken in the rest of the founded complaints. During 2013 there were no complaints received due to discrimination incidents. HR4

** Through the telephone line and e-mail.*
For our clients and suppliers we also have the Transparency Mailbox available through our Web Page:
www.axtel.mx/Sustentabilidad/Gobierno Corporativo/Buzón de Transparencia

Complaints received in 2013

108

19



During 2013, 100 percent of our suppliers received an additional letter of commitment for social accountability where AXTEL encourages them to meet the current guidelines, laws and standards in environmental matters, human rights, work safety and health, anti-corruption, social accountability, and quality. During this period, there were no corruption practices or behaviors observed with suppliers.

Human rights

HR3 / HR5 / HR6 / HR7 / HR8

IN AXTEL WE ADHERED TO THE UNITED NATIONS GLOBAL COMPACT SINCE 2011, THUS WE PROMOTE AND RESPECT THE 10 PRINCIPLES PROMOTED IN HUMAN RIGHTS, WORK STANDARDS, ENVIRONMENT AND FIGHT AGAINST CORRUPTION.

We also have a Human Rights Policy where we declare our position of ***respect and protection for human rights proclaimed internationally*** *PMNU 1*, ***ensuring we are not an accomplice in human rights abuse PMNU*** *PMNU 2*, and we protect individuals in all their expressions, rejecting ***forced labor*** *PMNU 4*, ***child labor*** *PMNU 5*, ***discrimination activities*** *PMNU 6* , abusive behavior, coercion and threat, ensuring its compliance with tools such as AXTEL Ethics Code, Diversity and Inclusion Policy, Personnel Hiring and Selection Policy and our Transparency Mailbox.

Besides we have a permanent inspection program with external contractors where we verify age, documents and protection equipment for those working inside and outside our facilities.

During 2013, through AXTEL University, we trained 22 percent of our security personnel in topics related to human rights. Our commitment for 2014 is to have 60 percent of the workers in this category pass the course and, in order to achieve this, there will be training actions implemented together with the security companies providing service.

Likewise, we meet the current legislation in our country in human rights matters, the Federal Labor Law and ***respect freedom of association and effective recognition of the right to collective bargaining*** *PMNU 3*.

Ensuring its compliance, we have a collective work agreement and Internal Work Regulations establishing respect to human rights and freedom of association and collective bargaining according to the ILO Declaration and regulations established by the Federal Labor Law. The Collective Labor Agreement is reviewed every two years and a document validation is carried out by the Ministry of Labor and Social Welfare. Likewise, there is a permanent education program taught in regards to union matters for the union delegates of the organization, which is supported by the Ministry of Labor and Social Welfare and the National Union Federation.

In order to learn about our Human Rights Policy and the 10 principles of the United Nations Global Compact in detail please go to: www.axtel.mx/sustentabilidad

AXTEL services 2.2 / 2.7 / SO7

With a portfolio of more than 30 integral communication services in AXTEL we serve the business, financial, and government sectors, wholesale and consumption enabling us to cover the demand of more than 700 thousand clients in the entire country. Our markets are divided into Consumption Market and Corporate and Government Market.

The consumption portfolio comprises the TELCO business lines (Telecommunications) and Value Added Services. The products offered in 2013 were:

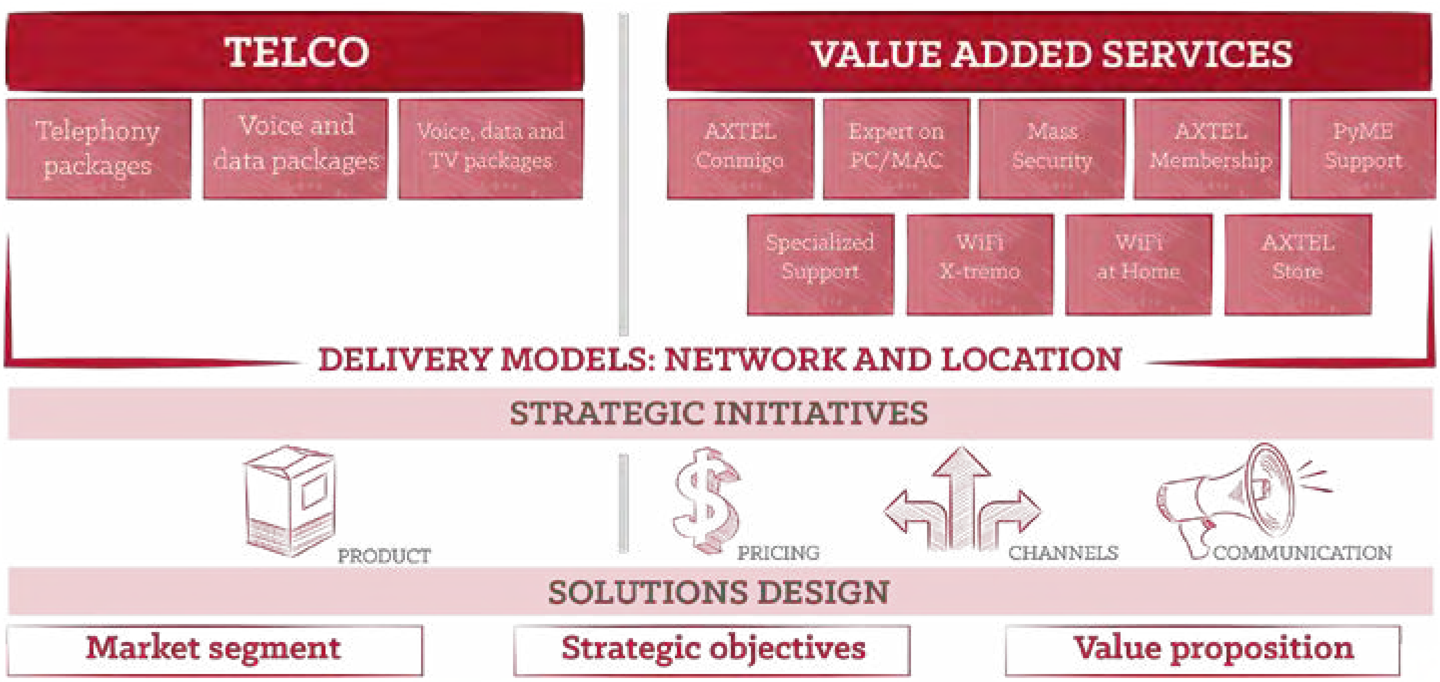
TELCO

In the *telephony* product line: AXTEL Plans, Intelligent Line, 800 Service; in *Packages*: AXTEL X-tremo, Universal Access, X-tremo Entertainment with AXTEL TV.

Value Added Services

We have the following product lines: AXTEL Conmigo, Expert for PC/Mac, Mass Security, AXTEL Membership, Pyme Support, Specialized Support, WiFi X-tremo, WiFi at Home, *Connected Home & Business*, *Back-up*, AXTEL Store.

Business Process of the Consumption Market



In 2013 we restructured our service offering for our business portfolio being distributed into TELCO products (Telecommunications) and IT (Information Technology), integrating the already existing products.

TELCO

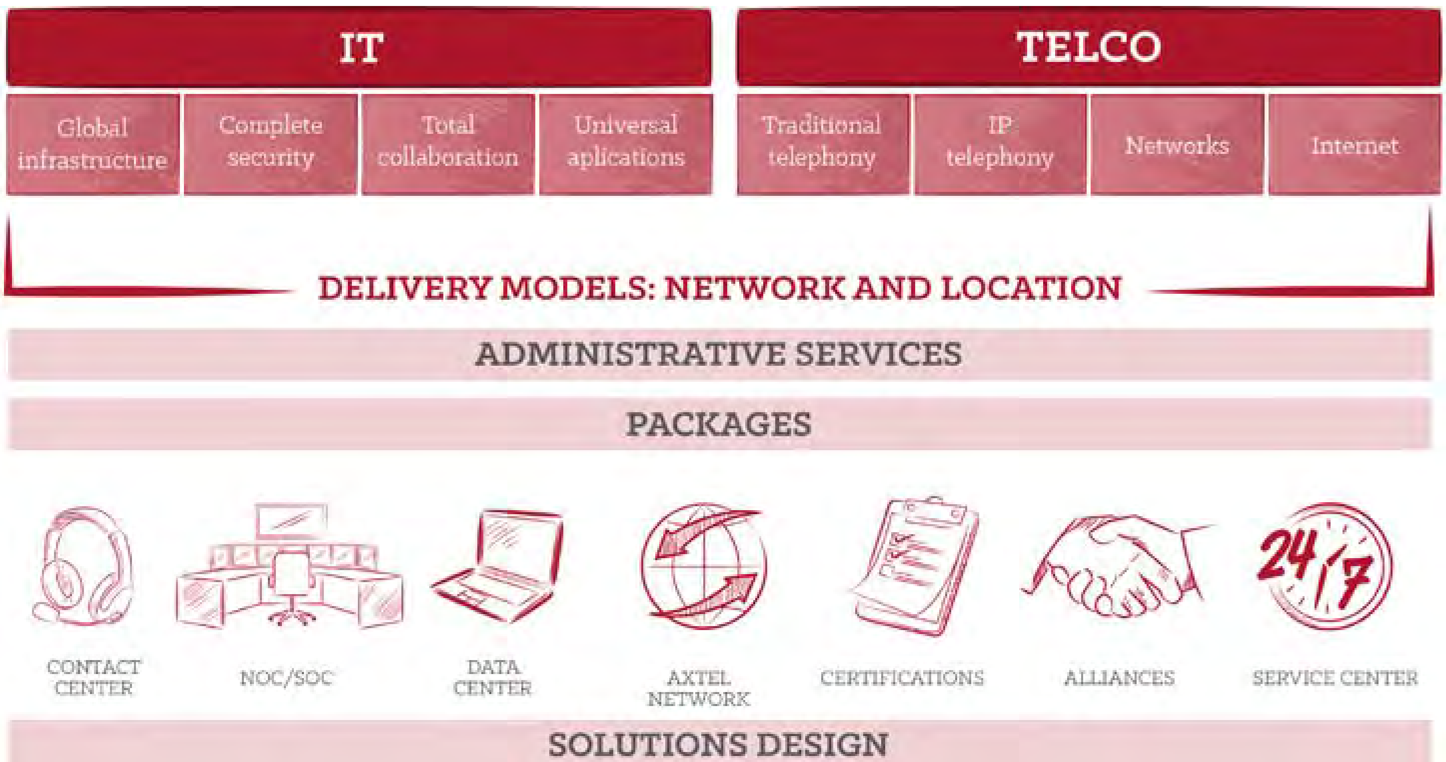
In the *Networks* product line: International VPN (VPN PIP International) and International Private Line (Global Link).

IT

In the *Global Infrastructure* product line: Data Center; in *Complete Safety*: AXTEL Track; and in *Total Collaboration*: Contact Center, Immediate Contact Center, Private Cloud Collaboration

1 You may see the complete list of products and services in the web page: www.axtel.mx

Business Process in Corporate and Government Market



Our world class network comprises different access technologies such as optical fiber, fixed wireless access, point-to-point and point to multi-point links, offering solutions that are customized to our clients' needs.

The AXTEL offering includes broadband service, pay television, the most advanced solutions for data transmission and implementation of virtual private networks, *web hosting*, *data centers*, managed security, services for other telecommunications operators and voice services, among others.

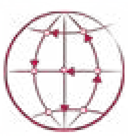
Through AXTEL X-tremo we offer the most advanced and fastest broadband service in the country, with a 200 MBPS speed.

Performance in our company is carried out in an industry having national competitors which have a large percentage of market share. Under this condition and in our compliance of the law, AXTEL has not been subject to sanctions or legal actions due to unfair competition and monopoly and/or practices against free competition. By the end of 2013 we have an open procedure regarding legal actions carried out to competitor enterprises due to unfair competition behavior and/or monopoly practices and a procedure solved in favor of AXTEL.

AXTEL technology

IN AXTEL WE HAVE THE MOST ADVANCED TECHNOLOGY RESOURCES IN THE MARKET TO PROVIDE THE BEST COMMUNICATION SOLUTIONS. WE OFFER THE BEST COMMUNICATION SOLUTION ACCORDING TO OUR CLIENTS' NEEDS.

The access technologies used are: optical fiber cable, fixed wireless access, point to point radio, point to multi-point radio, and copper technology. The access technologies include:



AXTEL digital network

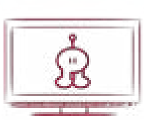
Through this network we integrate local telephony, long distance, Internet, and value added services.

Optical fiber

It offers high capability transportation, quality and reliability in voice and data digital transmission, as well as direct web connection, with solutions through optical fiber cable.

Fiber to the home or business (FTTx)

Enables the delivery of very high capability symmetrical services for homes and businesses.

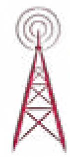


AXTEL TV

Thanks to its last generation IPTV technology *(Internet Protocol TV)* enables providing a differentiated service in México, having unique functionalities and providing unsurpassable image quality.

Fixed wireless access

Enables providing local telephony services, long distance, Internet, and value added services to residential clients and small businesses. It is not cell telephony. It uses a 50 MHz spectrum within the 3.4 GHz band at a national level and having a minimum impact on the environment.



WiMAX

We deliver higher speed data links through it using the IP protocol in a native way.

Point to multi-point radio

With a Broad geographical scope, low maintenance costs and minimum impact on the environment, the Point to multi-point radio technology is used to provide voice and data services. It has the 60 MHz spectrum, with coverage at a national level, within the 10.5 GHz band.

Point to point radio

Offering complete transmission services for voice, data and Internet, with great clarity and total call security. It enables covering the high capacity and broad coverage service requirements. AXTEL has 100 MHz spectrum within the 23 GHz band and 128 MHz spectrum within the 15 GHz band.

WiFi metro

Enables accessing Internet through a broad number of WiFi *Hotspots* located in different places in the city (shopping malls, restaurants, airports, schools, universities, hospitals, hotels, etc.) to browse in Internet and use the other services available in the cloud. It uses optical fiber and the AXTEL IP network as transportation means.

Intelligent network

Provides us the possibility to offer versatile and reliable voice services, customized according to the client's needs, some of them are: automatization and customization of entering calls, customer service, contact centers, probing and surveys, 800 and 900 numbers, among others.

Quality management system

DURING 2013 THERE WERE 18 IMPROVEMENT PROJECTS WITH THE PARTICIPATION OF 222 COLLABORATORS FROM DIFFERENT AREAS IN THE ORGANIZATION.

Additionally, as part of the institutional improvement program, the internal *Black Belt* leaders trained around 70 AXTEL collaborators in the cities of Monterrey and México City, replicating the problem solving method, either at a *Green Belt* level and/or self-execution projects.

The Improvement Tables concept was incorporated during this year, being defined as an internal and multi-disciplinary team that seeks and executes solutions to detected problems. The table is a vehicle for the continuous improvement culture in AXTEL, where the internal work team suggests and carries out improvements. It started with six tables to redesign the pre-selling and service delivery processes, and continued with tables with topics related to network operations and maintenance.

The goal for 2014 is to continue training the AXTEL collaborators in the improvement tools and maintain the participation as consultants in the tables of the Executive Direction of Corporate and Government Markets, Executive Direction for Technology and Operations, and Executive Direction for the Consumption Market, in order to continue fostering self-execution of projects which achieve fast improvements through coordination, discipline and structure in daily work.

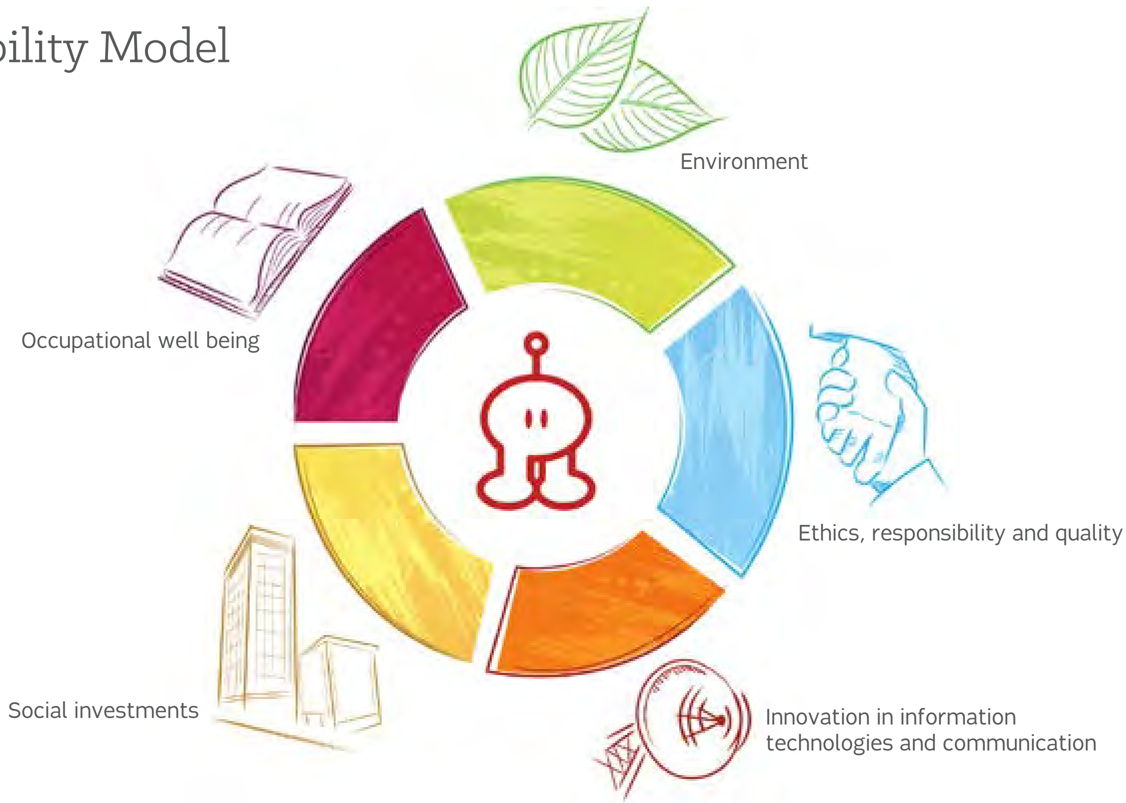
02

AXTEL SUSTAINABILITY

AXTEL sustainability 2.10

The AXTEL Sustainability Model is the framework that governs the actions under which we coordinate our socially accountable performance. We operate under ethical premises of responsibility and quality, innovation in information and communication technologies. The aforementioned always protecting the well-being of our collaborators, carrying out social investments for the benefit of the communities where we operate, and work continuously respecting the environment.

Sustainability Model



These set of actions, aligned to the business strategy, enabled us to enter in the Sustainable Price and Quotation Index of the Mexican Stock Exchange (Sustainable IPC), being part of the group of 29 public enterprises in México that obtained this rating since February 2013 through January 2014. This assessment is carried out annually by EIRIS and Anáhuac University.

Also in 2013, for the sixth consecutive year, we obtained the Recognition as Socially Responsible Enterprise, granted by Centro Mexicano para la Filantropía - Mexican Center for Philanthropy - (CEMEFI), as well as the fourth ESR Value Chain Recognition, reaffirming our commitment to operate and perform within the frame of a sustainable business. Through our Sustainability Policy we are committed, amongst other things, to comply with the current legislation in the places where we operate; protecting human rights for all individuals; ensuring the labor rights for our collaborators; working within an ethical framework; rejecting bribery and corruption; reducing environmental impact of our operations; contributing to social sustainability of the communities; and searching for continuous improvement in our processes and services.

In order to learn in detail the complete Sustainability Policy document go to: www.axtel.mx/sustentabilidad

Certifications and recognitions received in 2013

ESR 2013 Recognition, Mexican Center for Philanthropy (CEMEFI).
ESR 2013 Recognition, Value Chain, Mexican Center for Philanthropy (CEMEFI)
Cisco *Gold Star Recognition*, Excellence in Customer Satisfaction
Certification as Authorized Technology Provider for Video and Telepresence (*Telepresence Video Master Authorized Technology Provider -ATP-*) Cisco.
Certification as *Cisco Gold Partner.*
Certification as *Cisco Managed Services Channel Partner (MSCP).*
ISO 9001:2008
ISO 20000-1:2011
ISO 27001:2005
Certification *TIER III Certification of Design Documents, Uptime Institute.*
Certification *Level 3 S-WCQA Safety World Class Quality Assurance Data Center, International Computer Room Experts Association (ICREA).*
Google Award in Digital Marketing.
Certificate for Environmental Quality, PROFEPA/SEMARNAT.
Recognition as Leader Enterprise in Environmental Leadership for Competitiveness Workshop/SEMARNAT
Forbes Magazine, 25 most sustainable enterprises.
Mundo Ejecutivo Magazine, 45 enterprises with greatest sustainability in México.

Sustainability statement

Global Sustainability Strategy

We seek to contribute to a more sustainable future with our work and environmental practices, introducing in an honest, ethical and responsible manner, innovating solutions that provide society with access to information and communication technologies.

Economic Strategy

Our commitment is to honestly manage our technologic, economic, and financial resources, to operate efficiently under a strict risk control and following the legislation enabling a successful and sustainable growth of the company.

Social Strategy

We promote sustainable development in our community, carrying out actions that benefit our collaborators and our external communities, providing them the tools that allow them to have access to better education and health opportunities and a dignified living.

Environmental Strategy

We seek to reduce the negative impact of our operating practices in the environment, reviewing our procedures, developing new technologies, and improving our methods, to preserve resources and establish a harmonious relationship with nature.

Stakeholders 4.12 / 4.13 / 4.14 / 4.15 / 4.16 / 4.17 / EC6 / SO5

The different stakeholders with whom we relate are greatly relevant for our company. We have identified 41 groups of entities, organizations or individuals with which we are related. Based on this identification, we have grouped them into 10 large blocks.

We maintain continuous communication with each one and establish initiatives focused on their expectations and needs in order to serve them.

In May 2013, a Corporate Reputation Committee was created, integrated by those responsible for serving relevant stakeholders who are related with the company and whose objective is learning and responding to their expectations as best as possible. The committee meets twice a month to review the stakeholders' requirements and defining the strategies for their follow-up and review.

STAKEHOLDERS	COLLABORATORS		SHAREHOLDERS AND INVESTORS	
	Individuals who perform work for AXTEL, as well as individuals who work as part-time employees.		Comprised by stockholders, or owners of enterprise equity; debtors or debt investors of the company; analysts, whose work is facilitating the information between the organization and the investors; as well as regulators, rating agencies, and the rest of entities involved with public enterprises.	
		CONTACT FREQUENCY		CONTACT FREQUENCY
CURRENT COMMUNICATION MECHANISM	Intranet	Permanent	Web Page	Permanent
	E-mail messages	Daily	AXTEL Integrated Report	Annual
	AXTEL meetings with General Director	Annual	Board meetings	Quarterly
	Electronic Newsletter	Bi-monthly	Results Conferences	Quarterly
	Transparency mailbox	Permanent	Annual Shareholders Meeting	Annual
	Corporate Social Network	Permanent	E-mail	Permanent
	Printed and brochures	Permanent	Forum presentations	Recurring
	Organizational atmosphere survey	Annual	Results Quarterly Report	Quarterly
	Web Page	Permanent	Spokespeople and representatives	Permanent
	Annual Integrated Report	Annual	News in media	Quarterly
	Spokespeople and representatives	Permanent	Investors Contact Mailbox	Permanent
	News in media	Permanent		
	Press releases	By event		
	Safety and Hygiene Commissions	Monthly		
EXPECTATIONS	Results Recognition Training and professional development Live / work Balance Flexible work schedules Occupational Health and wellness Competitive salaries and benefits Safe working conditions Innovation Communication		Profitable and sustainable growth, Information transparency Accountability. Access to high executive levels Accountability on decisions and results *(accountability)*	
INITIATIVES	Organizational atmosphere survey 360° Annual Assessment Communication campaigns Objective alignment Seniority recognition Volunteer Program Annual Integrated Report Health, education and entertainment programs Personal safety prevention campaigns Family Day AXTEL Meeting Results based incentive Objectives alignment Commercial Agreements for collaborators Integration of Corporate Reputation Committee		Strategic Planning Constant communication with investors Internal audit Risk identification Corporate Governance Structure Ethics Code Integration of Corporate Reputation Committee	

STAKEHOLDERS	CUSTOMERS	
	Individuals or groups that use AXTEL services in a recurring or eventual manner to cover their communication needs, entertainment and information technologies.	
CURRENT COMMUNICATION MECHANISM		CONTACT FREQUENCY
	Media news	Permanent
	Advertising	Permanent
	E-mails	Bi-monthly
	Press releases	By event
	Message and inserts in invoices	Monthly
	Leaflets	Monthly
	Contact Center (telemarketing, service and National Center for Repair)	Permanent
	Web Page	Permanent
	Transparency mailbox	Permanent
	Contact Mailbox	Permanent
	Spokespeople and representatives	Permanent
	SMS	Monthly
	Annual Integrated Report	Annual
	Facebook, Twitter, You Tube, Digital media (Google)	Daily
EXPECTATIONS	Service quality and Reliability. Timely communication and attention Truthful and timely information of product and service offerings Innovation Legality Knowledge of AXTEL and its products Price according to product value Support and counseling Care for the Environment	
INITIATIVES	Introduction of higher value added services (AXTEL X-tremo 200Mb, AXTEL TV, Business Security, Collaboration Total Business, launch of Public WiFi) Customer approach making the satisfaction model evolve Communication through media Portal redesign Communication deployment, service and sales Via Social Networks PC&MAC Expert post-sales and specialized support specialized services. Data Center and service personnel Certification Certification of Contact Centers E Business and digital Marketing Optical Fiber Network (FTTX) Development Electronic Invoicing Integration of Corporate Reputation Committee	

STAKEHOLDERS	SUPPLIERS	
	Organizations or individuals with whom AXTEL maintains trade relations to exchange goods and services that support the execution of our administrative and operational processes.	
CURRENT COMMUNICATION MECHANISM		CONTACT FREQUENCY
	Suppliers' Extranet	Permanent
	Annual Integrated Report	Annual
	E-mails	Bi-monthly
	Face-to-face meetings	Monthly
	Training workshops	Monthly
	Spokespeople and representatives	Permanent
	Transparency mailbox	Permanent
	Contact Mailbox	Permanent
	News in media	Permanent
	Press Releases	Per event
EXPECTATIONS	Development Sharing sustainable business practices Policy compliance Compliance of current legislation Care for the Environment	
INITIATIVES	Implementation of Environmental Leadership Workshop (PROFEPA) Implementation of Social Accountability Workshop (CEMEFI) Engagement in No-Gift and Anti-corruption campaign. Volunteer Programs Integration of Corporate Reputation Committee	

STAKEHOLDERS	GOVERNMENT AND REGULATORY ENTITIES		ORGANIZATIONS AND GROUPS	
	Government entities with which AXTEL interacts for the correct execution and provision of its services, always respecting the legal framework existing in México.		Civil society organizations with which the enterprise is related with the purpose of exchanging services, knowledge and/ or mutual support (or for one of them), for the benefit of the enterprise, the members of the organizations or both parties.	
CURRENT COMMUNICATION MECHANISM		CONTACT FREQUENCY		CONTACT FREQUENCY
	Face-to-face meetings	Permanent	Volunteer work	Per event
	Portability and long distance Committees	Monthly	AXTEL Foundation	Permanent
	Spokespeople and Representatives	Permanent	AXTEL Foundation E-mail	Permanent
	Transparency mailbox Annual	Permanent	Transparency mailbox	Permanent
	Integrated Report	Annual	Annual Integrated Report	Annual
	News in media	Permanent	News in media	Permanent
	Press Releases	Per event	Campaigns	Per event
	Web Page	Permanent	01 800 AXTEL Foundation	Permanent
	Portability dealer microsite	Permanent	Invitation for co-investment projects	Annual
			Spokespeople and representatives	Permanent
			Web Page	Permanent
			Reunions	Per event
			Press Releases	Per event
EXPECTATIONS	Compliance of Laws, Regulations, and Applicable Standards Investment Job creation Social coverage Analysis of proposals for laws and regulation projects		Alliances and support Feedback Contribution in social and economic development Job creation Education promotion	
INITIATIVES	Collaboration with authorities Compliance with current legislation Participation in intermediate organizations Constant dialogue Job creation Investment Integration of Corporate Reputation Committee		Annual invitation for co-investment in social projects. Participation in volunteer work Participation in non-government organizations Social welfare campaigns Participation in mixed representation social programs (Government - PS-Community) Integration of Corporate Reputation Committee	

STAKEHOLDERS	COMPETITORS		MEDIA	
	Telecommunications Dealers and Information Technology enterprises who offer same or similar services as AXTEL with whom there is constant communication in order to achieve a competitive development in the Telecommunications Industry.		Enterprises specialized in spreading news through one or several media (printed, electronic, etc.).	
CURRENT COMMUNICATION MECHANISM		CONTACT FREQUENCY		CONTACT FREQUENCY
	Committees	Permanent	Press Releases	Per event
	Web Page	Permanent	One-on-one Interviews	Per event
	Spokespeople and representatives	Permanent	Spokespeople and representatives	Permanent
	Press Releases	Per event	Breakfasts	Quarterly
	Sector meetings and events	Per event	Annual Integrated Report	Annual
	Annual Integrated Report	Annual	Web Page	Permanent
	News in media	Permanent	Transparency mailbox	Permanent
	Transparency mailbox	Permanent	Social networks and applications	Permanent
			E-mail	Permanent
EXPECTATIONS	Fair competition and legally following Compliance of agreements and standards Participation in committees and industry chambers Exchange of opinions regarding industry aspects and topics Respect to Legality Acting ethically		Truthful and timely information Transparency Accountability Compliance of current legislation	
INITIATIVES	Participation in sector forums and industry chambers Constant and expedite communication Collaboration in joint opinions in legislation proposals Facilitation in dialogue amongst competitors Integration of Corporate Reputation Committee		Constant dialogue Procurement of timely information Implementation of program for media relationship Integration of Corporate Reputation Committee	

STAKEHOLDERS	COMMUNITIES		UNIONS	
	Groups of individuals who live in areas where the company is established who maintain a good relationship as neighbors with the organization and its collaborators.		Groups of Collaborators who are organized through a collective agreement and who work full time in the company.	
CURRENT COMMUNICATION MECHANISM		CONTACT FREQUENCY		CONTACT FREQUENCY
	Spokespeople and representatives	Per event	Spokespeople and representatives	Per event
	Annual Integrated Report	Annual	Annual Integrated Report	Annual
	Web Page	Permanent	Web Page	Permanent
	Social Networks and applications	Permanent	Social Networks and applications	Permanent
	Transparency mailbox	Permanent	Transparency mailbox	Permanent
	Journal notes	Per event	Journal notes	Per event
	E-mail	Per event	E-mail	Per event
			Events and sector meetings	Bi-annually
EXPECTATIONS	Care for the environment Investment in social development projects Job creation Mutually beneficial relations Effective communication channels Respect to habits and culture Compliance of current legislation		Compliance of current legislation Improvement in working conditions Compliance of collective work agreement Safe working conditions Better productivity for the company	
INITIATIVES	Volunteer Program Annual invitation for co-investment in social projects Participation in sector meetings Open communication channel Integration of Corporate Reputation Committee		Mixed commissions for Safety and Hygiene Collective labor Agreement Compliance of current Legislation Participation in sector meetings Permanently open communication channel Sector meetings Periodic training Better work safety and health conditions Integration of Corporate Reputation Committee	

We are members of different Chambers and Associations with the purpose of exchanging information, experiences and actively participating in the business community. In 2013 we continue subscribed to:

- National Chamber for Telecommunication Industry via Cable - CANITEC.
- National Chamber for Electronic Telecommunications Industry and Information Technology, CANIETI.
- Mexican Chamber of Industry, CONCAMIN.
- Business Coordinating Council, CCE.
- *Telecom Council of Silicon.*
- *TM Forum.*

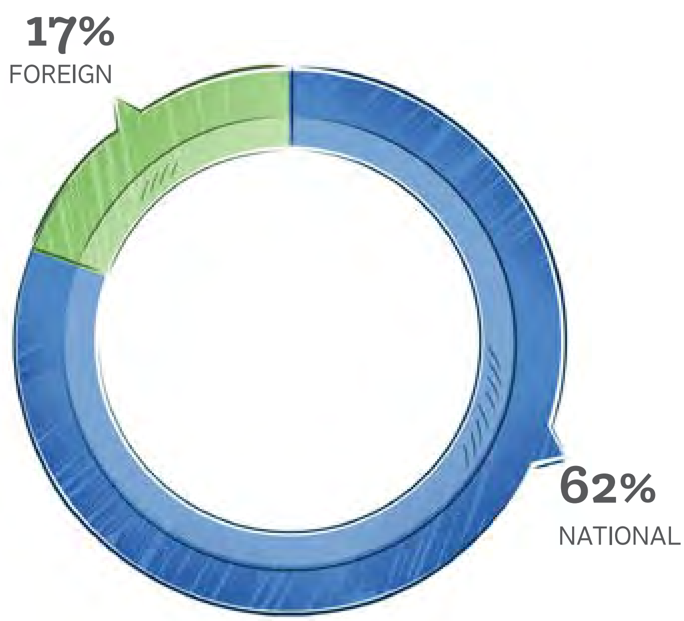
Suppliers

The suppliers are a very important stakeholder in AXTEL Thanks to them we have the ability to serve satisfactorily the different markets where we operate. Thus, we seek to carry out our trade interactions, as much as possible, with local suppliers in the places where we operate, promoting their economic development and also in the communities where they are established.

As part of the commitment to involve our suppliers in socially accountable practices, we invited a group of 15 micro, small and medium size enterprises to attend the Environmental Leadership Program, organized by PROFEPA, the Environment and Natural Resources Secretariat (SEMARNAT) and the Environmental Protection Institute in N.L. (IPA).

There were also 10 PyMES suppliers invited to participate for the first time in this invitation to obtain the Recognition as Socially Responsible Enterprise in 2014 awarded by CEMEFI. As part of this process, there were four training workshops taught during 2013.

Proportion of budget allocated in 2013 by supplier category



Community

In the Social Accountability area, we carried out different activities together with the volunteer collaborators who joined us in supporting the neighboring communities. Some of these activities were:

- Gathering products at a national level in order to support the contingency created by hurricanes Ingrid and Manuel. 16.5 tons were gathered which were delivered in Guerrero, Sinaloa, Michoacán, Zacatecas, San Luis Potosí, and Nuevo León.
- Signature of the agreement with Sistema para el Desarrollo Integral de la Familia (DIF) - Integral Family Development System - in Hermosillo to participate in the Networks and Alliances Program. This agreement has the purpose of developing social practices for the benefit of the most vulnerable population in this location.
- Thanks to the collaboration agreement between DIF Hermosillo and AXTEL, a group of AXTEL volunteers participated in a reforesting campaign in one of the vulnerable neighborhoods in the city.
- A group of 28 AXTEL volunteers went to different communities in Nuevo León in order to deliver one thousand 200 kilos of goods, which were distributed amongst 362 grocery packages for the same number of families.
- A blanket gathering campaign was carried out called "Cobertón AXTEL 2013" (AXTEL Blanket 2013) in which there were one thousand 148 blankets donated by our collaborators in the cities of Monterrey, Hermosillo and Mexicali, as well as the collaborators in the North Region from Network Maintenance and Infrastructure. With this, 900 families in the state of Nuevo León received support.

Other events

In 2013 we participated as sponsors in the events *AngelHack* Monterrey Primavera 2013 and ITT Expo 2013. The first one is the largest *hackatón* competition in the world which gathers programmers and international entrepreneurs with the objective of promoting their ideas and projects. ITT Expo 2013 is the most important international exhibition in regards to information technology and telecommunications.

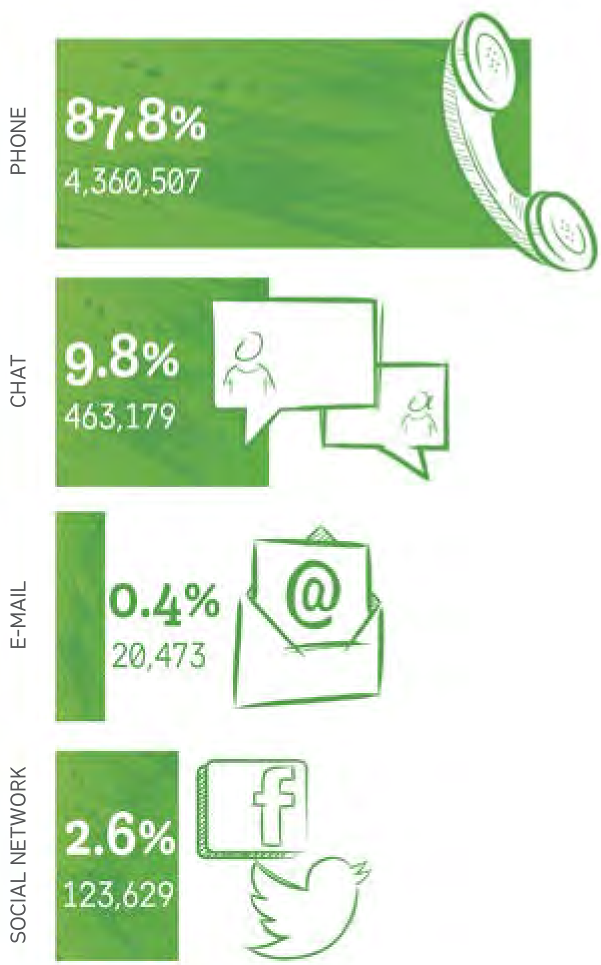
Customer satisfaction PR5

In AXTEL we maintain interaction with our clients through different mechanisms which enable us to be in touch with them, receive their concerns, complaints, service failures, technical or administrative problems, or provide their opinion regarding attention and services provided. These tools are available through the Customized Service Modules, Customer Service Centers, Web page, surveys and service calls. In 2013 we served a total of 4 million 967 thousand 788 interactions with our clients.

On the other hand, through an external supplier service we applied customer and user surveys bi-annually, with the purpose of assessing the satisfaction of the services we provide.

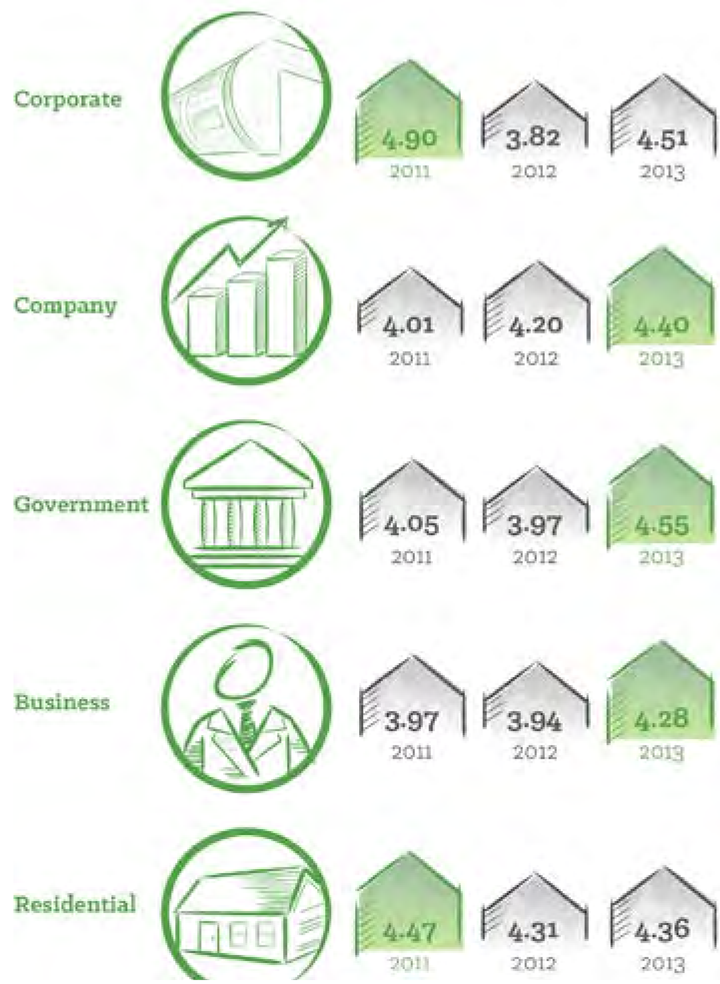
For this study, the participation of 9 thousand 826 clients was considered who assessed the following aspects: pre-selling and selling process, installation process, use of products and services, customer service, failure repairs, invoicing and collection. Out of the clients interviewed, 81 percent correspond to the consumption market, and 19 percent to the business market.

Interaction with customers during 2013



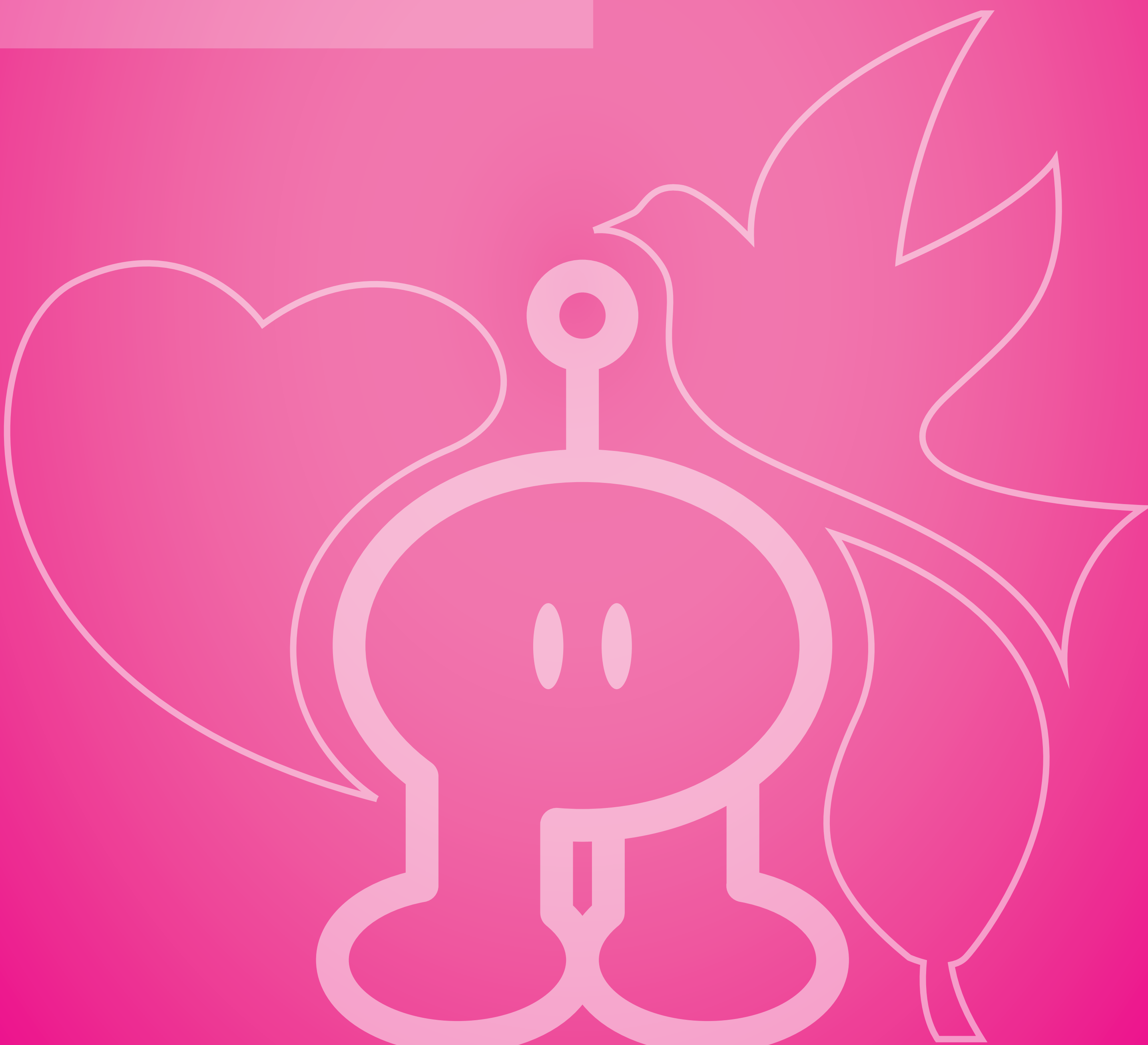
WE SERVED
4,967,788
interactions during 2013

Customer satisfaction index



03

AXTEL FOUNDATION



AXTEL Foundation S01

During 2013 AXTEL Foundation invested 6 million 754 thousand 757 MXN in social projects.

This allocation was carried out through the seventh edition of the Contest Co-investment on Social Projects, which supported 26 winning projects in 15 different cities.

The projects supported had the purpose to provide attention to 12-17 old youths, in risk of social exclusion in the urban-marginal zones of the cities where AXTEL is present.

In AXTEL we have a high interest in having a positive impact in these youths who are now almost 10 percent of the population in our country. Facing a reality where teenager psycho-social vulnerability is increased by early dropping out of school and early incorporation into labor through marginal works, we consider important to strengthen the actions focused on facilitating the inclusion of this social group.

Volunteer work

Through the volunteer work program, 15 elementary schools and two secondary schools were supported in 13 AXTEL cities. These activities were carried out under the Impulsa program, which tries to develop the students' entrepreneurial spirit in public schools, located in low-resources neighborhoods, motivating them to continue their education and planting in them the seed for the pursuit of excellence.

In 2013 a total of 261 AXTEL volunteers participated providing one thousand 690 hours of service to benefit 4 thousand 166 students. The cities where this program was implemented were Monterrey, Ciudad de México, Guadalajara, Ciudad Juárez, Chihuahua, Cuernavaca, Hermosillo, Mexicali, Puebla, Toluca, Morelia, Saltillo and Querétaro.

Sumarse Network

It is an institution integrated by 27 Mexican enterprises in which AXTEL is part, and together with the Social Development Secretariat in Nuevo León, promotes strengthening the civic characteristics and reconstruction of social fabric in the metropolitan area in Monterrey.

Alianza Educativa Ciudadana por Nuevo León

This model of community participation has the purpose of involving the neighbors and the school community to improve the educational quality of the students in Nuevo León.

In 2011, AXTEL adopted Technical Secondary No. 43 "Adalberto Viesca Sada" located in the municipality of Apodaca, Nuevo León, which has 826 students, and since 2013 "Elementary School Primero de Mayo" in Santa Catarina, Nuevo León. With the support of volunteer collaborators, the following activities were carried out:

- Delivery of 460 books donated by AXTEL collaborators.
- Plant a Tree reforesting campaign.
- Cleaning, painting and cutting works.
- Follow-up to committees working in these topics: reading; infrastructure improvement; civil protection and school safety; physical activity promotion; recreation, physical and cultural activities; discouragement to violence practices; establishing school consumption; care for the environment and cleaning of the surrounding area.
- Carrying out events for the promotion of values and activities fostering students' health and wellness.
- Promotion of sports activities.

As part of the activities in this Alliance, the initiative Young Power was launched in 2013, led by AXTEL Foundation. Young Power is an initiative searching to generate synergy and focusing on different social actors in order to serve youths living in high social risk developments in Nuevo León.

Young Power works empowering youths and providing them the tools so they become change agents, creating a culture of wellness and promoting values to achieve their Integral development. The action lines are: fostering education, promotion of social behaviors, strengthening of the family, individual development, and organization and community participation.

04
SOCIAL PERSPECTIVE

Social perspective

2.8 / EC5 / EC7 / LA1 / LA2 / LA4 / LA13

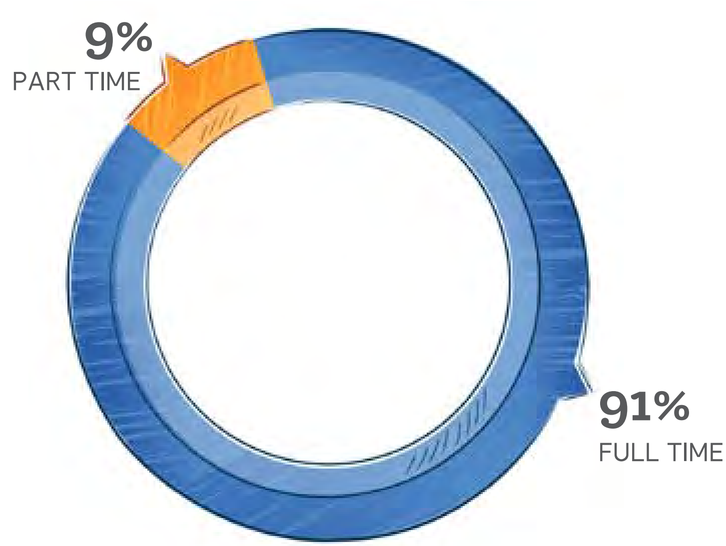
IN AXTEL WE STRIVE TO OFFER AN APPEALING WORK OFFERING FOR THE 6 THOUSAND 791 COLLABORATORS WHICH ARE PART OF OUR TEAM, IN THE 39 CITIES IN MÉXICO WHERE WE OPERATE.

We offer a safe working environment, with equality and quality of life, for which we make available continuous training programs, health and safety in the job:

NUMBER OF COLLABORATORS BY GENDER AND REGION			
REGION	MEN	WOMEN	TOTAL
México, Center, South	1,407	296	1,703
West	968	461	1,429
North	2.497	1,162	3,659
TOTAL	4,872	1,919	6,791

Collaborators by type of agreement

LA1



NUMBER OF COLLABORATORS BY AGE, GENDER, AND REGION							
REGION	MEXICO, CENTER, SOUTH		WEST		NORTH		
AGES	MEN	WOMEN	MEN	WOMEN	MEN	WOMEN	TOTAL
18 - 30	545	114	637	356	1,012	671	3,335
31 - 40	594	152	243	89	1,063	404	2,545
41 - 50	229	28	84	15	368	79	803
50 +	39	2	4	1	54	8	108
TOTAL	1,407	296	968	461	2,497	1,162	6,791

DISTRIBUTION OF COLLABORATORS BY GENDER AND ORGANIZATIONAL CATEGORY			
TITLE	MEN	WOMEN	TOTAL
Executive Directors	8	0	8
Directors	32	2	34
Managers	123	11	134
Employees - Staff	2,366	858	3,224
Contact Center Executives	1,083	1,048	2,131
Installers	1,260	0	1,260
TOTAL	4,872	1,919	6,791

OUR EXECUTIVE TEAM, COMPRISED BY EXECUTIVE DIRECTORS, DIRECTORS AND MANAGERS, 98.3 PERCENT ARE NATIONAL, WHILE 1.7 PERCENT ARE FOREIGN.

EXECUTIVES BY GEOGRAPHICAL REGION			
	MEN	WOMEN	TOTAL
Executives native of the cities where AXTEL is present	147	11	158
Executives native of the cities where AXTEL is not present	13	2	15
Executives native from other countries	3	0	3
TOTAL	163	13	176

18.48 percent of the AXTEL collaborators are covered by a collective labor agreement. Unionized collaborators are subscribed to a Collective Work Agreement that is reviewed annually by the National Union Federation. The renewal is carried out every two years and the document is deposited at the government agency of the Federal Conciliation and Arbitration Board.

NUMBER OF EMPLOYEES PER TYPE OF EMPLOYMENT, AGREEMENT, AND REGION				
REGION	UNIONIZED	NON-UNIONIZED		
	FULL TIME	FULL TIME	PART-TIME	TOTAL
México, Center, South	556	1,143	4	1,703
West	316	705	408	1,429
North	388	3,047	224	3,659
TOTAL	1,260	4,895	636	6,791

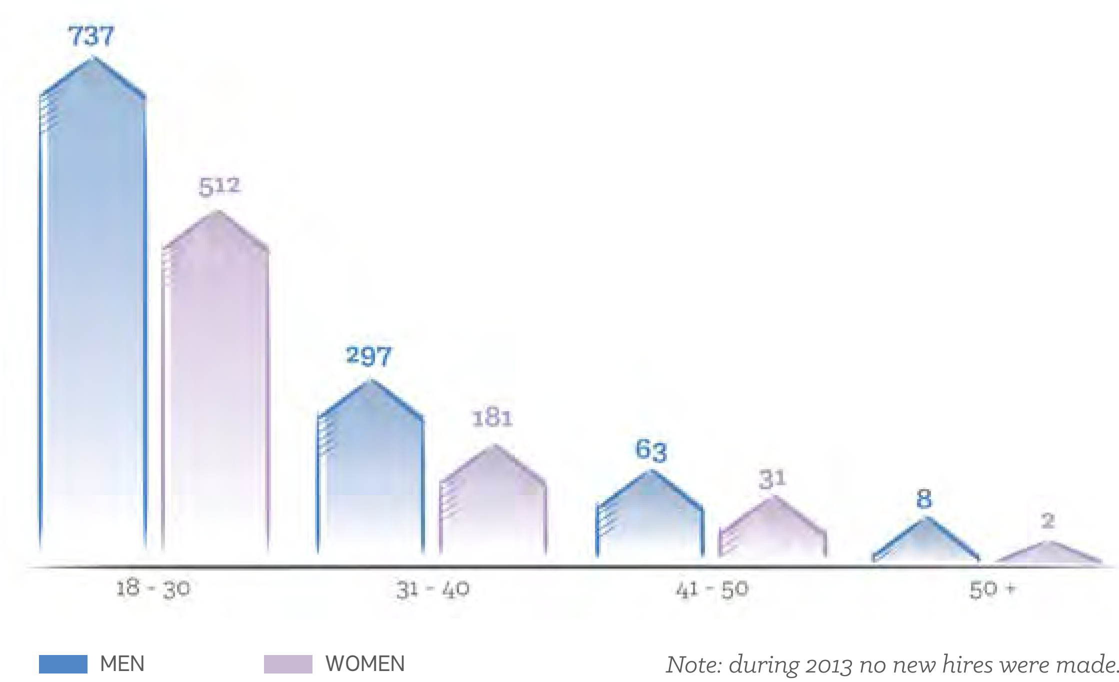
Note: in AXTEL no temporary employees are hired.

We have policies and procedures that enable us to carry out a search process for candidates for vacant positions, selection and recruitment according to the professional competencies without distinction of characteristics related to gender, race, religion, age, or social condition. Likewise, we promote work opportunities inside the company, before its publication to external audiences.

Total employees who left their job in 2013:

1,831

Employee turnover by age and gender LA1



Note: during 2013 no new hires were made.

The annual turnover percentage in 2013 was 28.06 percent, considering a base of 6,667 collaborators.

In AXTEL we handle salaries by competitiveness, which are measured based on the Telecommunications Sector enterprise market. According to the amounts published by the Ministry of Labor, AXTEL salaries for operational positions range between 373 percent and 394 percent on the base of national minimum salaries.

COMPETITIVENESS PERCENTAGE OF AXTEL DAILY SALARY AVERAGE VS. DAILY SALARY OF THE AREA

GEOGRAPHICAL ZONE	ZONE DAILY SALARY	DIFFERENCE
A	$67.29	373%
B	$63.77	394%

A pilot program was launched since 2012 for home working, which continued operating during 2013. This program is operating in the sourcing area, where collaborators work from home two days during the week.

The benefits derived from this program are:

- Commute time savings, in average 1.6 hours a day.
- More time for effective work and productivity while decreasing distractions.
- Permanent attention in chat, telephone, and mail.
- Gas average savings of $643.50 MSN per month per employee. Cars stopped traveling through 6 thousand 427 Km during 2013.
- Better quality of life, since the collaborators under this scheme increase an average of two hours of time dedicated to their families.
- Flexibility to work anywhere with WiFi access for operation continuity.
- 100 percent utilization of work tools.

Another program we have implemented with favorable results is training and employment for collaborators with disabilities in a joint project with the Technology University of Santa Catarina, in the state of Nuevo León.

The Enterprise at School project, as it has been called, is operating since 2011 and it is a project which is 100 percent inclusive having the Center of Contact privilege employment for individuals with disabilities who meet the profile for this professional function.

During 2013, 20 percent of the collaborators in this Contact Center are individuals with disability graduated from this program.

Integral collaborator agenda

As part of the personal development plan for our collaborators and their families, we have the Integral Collaborator Agenda, program offering alternatives for training and events in the health, education, family, community and work development areas.

INTEGRAL COLLABORATOR AGENDA			
	ACTION	NUMBER OF COLLABORATORS PARTICIPANTS	TOTAL ACTIVITIES
Educational	English placement exams	45	3
	Education with curricular value in universities	33	3
Relative	Relative visits to AXTEL facilities	660	19
Health	Health actions	2,314	2,314
	Information presentations	206	3

AGREEMENTS WITH OTHER ORGANIZATIONS OFFERING BENEFITS FOR AXTEL COLLABORATORS		
TYPE OF AGREEMENT	NUMBER OF AGREEMENTS	NUMBER OF COLLABORATORS BENEFITED
Health	14	6,791
Educational	46	6,791
Entertaining	24	6,791
Commercial	24	6,791

WITHIN THE INTEGRAL COLLABORATOR AGENDA, THERE ARE EVENTS CONSIDERED WHERE COLLABORATORS ARE INVITED, TOGETHER WITH THEIR FAMILIES, TO ATTEND CULTURAL ACTIVITIES, RECREATIONAL, EDUCATIONAL AND FAMILY SHARING EVENTS. DURING 2013 WE HAD THE PRESENCE OF 18 THOUSAND 107 PEOPLE

CULTURAL EVENTS, RECREATIONAL AND FAMILY SHARING		
EVENT	NUMBER OF CITIES PARTICIPANTS	TOTAL ATTENDING
4º AXTEL Family Day	39	13,647
Family Visits	19	660
Educational Fair	4	996
Health Fair	3	2,792
Child Talent Contest	5	12

HEALTH EVENTS FOR COLLABORATORS AND THEIR FAMILIES		
MEDICAL CAMPAIGN	2012	2013
Vaccination	938	1,056
Information and prevention	2,950	2,314
Family health	346	360
Miscellaneous medical services	439	450
Women Health programs	262	350
Conferences	250	250
Nutrition campaigns	497	530

Training

LA8 / LA10 / LA12

Our collaborators receive constant training and education with the purpose of potentializing their professional performance, while we ensure operational efficiency in our company.

Likewise, we carry out performance assessments to key personnel in order to evaluate possibilities for promotion in vacant positions. 3 percent of our collaborators were assessed during 2013 for this purpose. Additionally, there were 360 evaluations carried out for 171 executives.

During 2013, 59 percent of our collaborators received some kind of training.

AVERAGE NUMBER OF HOURS OF FORMATION PER YEAR PER EMPLOYEE, DIVIDED BY CATEGORY			
CATEGORY	NUMBER OF COLLABORATORS	AVERAGE HOURS	FORMATION OF TRAINING PER CATEGORY
Directors	10	17	1.7
Managers	41	140	3.4
Middle Management	756	5,397	7.1
Analysts	2,742	43,186	15.7
Assistants	83	2,055	24.7
Unionized	414	43,886	106
TOTAL	4,046	94,681	---

AXTEL TRAINING 2013				
MODALITY	NUMBER OF COLLABORATORS TRAINED	NUMBER OF COURSES TAUGHT	HOURS OF TOTAL TRAINING	AVERAGE HOURS TRAINING PER EMPLOYEE*
Virtual	3,248	577	15,483	4.7
Face-to-face	1,732	128	79,198	45.72

**The average number of training hours per employee is calculated taking as a basis the number of collaborators trained.*

The eleventh class of the program From Supervisor to Coach, focused on middle management graduated in 2013, with the purpose of developing leadership and coaching skills that ease the achievement of team objectives, as well as achieving a transformation in the way to manage personnel.

This generation comprises 38 collaborators from Monterrey and Guadalajara, having in total 340 coaches in our company.

Integral and occupational safety LA7

In the area of Industrial Safety, the accident record was 4.04 percent lower than the industry of professional and technical services providers average, according to the Ministry of Labor and Social Welfare (STPS), which represents an improvement of 13.15 percent regarding 2012. Nevertheless, the accident severity increased in 16.98 percent in regards to the same period in 2012, but remained in 40.09 percent lower than the national average registered at STPS. This was the result of the 232 safety presentations taught at a national level and more than 720 recommendations issued in the different work centers at AXTEL.

The requirements to obtain the Certification as Safe Enterprise from the Ministry of Labor and Social Welfare were met during the year, process in which we will continue working during 2014.

ABSENTEEISM RATES, PROFESSIONAL DISEASES, DAYS LOST AND NUMBER OF FATAL VICTIMS BY REGION IN 2013				
	MEXICO CENTER SOUTH	WEST	NORTH	TOTAL
Days lost	1,667	935	785	3,387
Number of fatalities	0	0	0	0
Number of professional diseases	0	0	0	0
Number of work accidents	58	41	40	139

ABSENTEEISM RATES, PROFESSIONAL DISEASES, DAYS LOST AND NUMBER OF FATALITIES			
	2011	2012	2013
Days lost	2,563	2,480	3,397
Number of fatalities	0	0	0
Number of professional diseases	0	0	0
Number of work accidents	113	133	139

LABOR ACCIDENT RATE AND LOST DAYS			
	2011	2012	2013
Average of personnel exposed to risk during the year	6,034	7,120	7,263
Average lost days due to accident	22.68	18.65	24.43
Average accidents per person	0.044	0.02	0.01913

The indices for the calculation of accidents, severity and accident rates are calculated on the formula according to the Ministry of Labor and Social Welfare (STPS) and the National Legislation which meets the ILO recommendations (International Labor Organization).

AXTEL showed an increase in days lost and accidents during 2013, due to the incorporation of a new process as well as the increase in headcount, while introducing FTTx technology in five additional cities, which implied greater work in the field and proximity to electrical energy.

05

ENVIRONMENTAL PERSPECTIVE

Environmental perspective 5.1 / EN26 / SO1

At AXTEL we work so that processes and procedures in our operations do not generate a negative impact to the environment. We recognize the importance of caring and preserving the resources that the Planet provides us, thus we constantly seek innovation in our procedures ***and technologies we use in our operations so these are harmless to the environment*** *PMNU9*.

We have policies which enable us to ensure the correct execution of our actions: The Environmental Policy, Waste Management and Disposal Policy; and Energy Savings Policy.

The Environmental Policy is aligned to the Sustainability Policy and has the guidelines to be followed to reduce and prevent the environmental impact of our activities, inside and outside of the company, while we establish a harmonious relationship with nature.

Initiatives 2013

During the year we started ***different initiatives focused on contributing with the environment and promoting a greater environmental responsibility*** *PMNU8*, either through optimization in our operations, or participating in external projects. Some of the most relevant were: Environmental Quality Certification, Environmental Leadership for Suppliers, Shared Vehicle Program, Clean Transportation, Paperless program, Monterrey Metropolitan Water Fund (FAMM).

Environmental Quality Certification

In 2012 we launched the process for the certification as Environmental Quality Certification granted by the Federal Direction for Environmental Protection Agency (PROFEPA) regulating agency in the Environment and Natural Resources Secretariat (SEMARNAT), which granted us the Certification for the Monterrey Corporate building and for the Santa Fe building in México City.

Environmental Leadership for Suppliers

We invited 15 suppliers to participate in the Environmental Leadership Workshop taught by personnel from Federal Direction for Environmental Protection Agency (PROFEPA) and by the Environmental Protection Institute in Nuevo León, (IPA).

There were nine workshops taught at the Monterrey corporate facilities, with the purpose of supporting them in the development of environmental initiatives appropriate to their business operation.

Shared Vehicle Program

A pilot program started at the Monterrey corporate building in 2013, promoting the vehicle sharing culture with work peers to avoid CO2 emissions, gas savings, and parking spaces. This program will start the implementation of the Car Pool program in 2014, another program with the objective to ease and promote the shared vehicle use among members of the same company.

Monterrey Metropolitan Water Fund (FAMM)

We participate in the creation of this fund, initiative which is an example of how ***we support preventive methods in regards to environmental problems*** *PMNU7*. This project created during 2013 with the participation of four universities, 23 enterprises, 16 civil organizations, and 16 government institutions, focuses on protecting the water sources that supply more than 4 million people who live in this city.

FAMM is part of the Latin American Water Funds, created in June 2011 by The Nature Conservancy (TNC), FEMSA Foundation, the Inter-American Development Bank (BID) and The Nature Conservancy Environment (FMAM-GEF), to create and strengthen Latin America Water Funds.

A Water Fund is a mechanism that enables paying for environmental services (water infiltration, soil retention,

**To learn the complete content of the Environmental Policy, please go to: www.axtel.mx/sustentabilidad* weather regulation, and bio-diversity) provided by nature and reinvesting in preservation efforts. Resources are obtained through this alliance to finance the preservation and restoring project of the San Juan River Basin. The Fund will focus on four objectives: flood mitigation, improving infiltration, developing a water culture, and working with government in order to take resources to the basin.

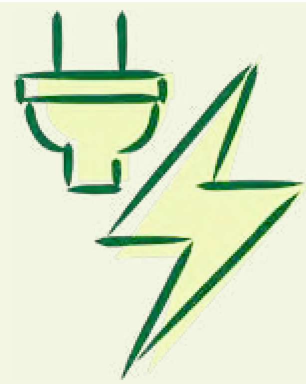
Energy and air emissions

EN3 / EN4 / EN5 / EN7 / EN16 / EN17 / EN18 / EN29

In 2013 we carried out change in the infrastructure and network operation process, as well as technology change in the radio basis resulting in space optimization, in use of land, and generating reductions in energy consumption and waste generation.

The average energy consumption per month was 5 thousand 570 Kw per radio base. With the new process, consumption was reduced to one thousand 236 Kw per radio base. This generated savings of 377 thousand 058 Kw per month, equivalent to annual savings of 4 million 524 thousand 696 Kw, without discharging 11 thousand 311 tons of CO2.

Amount of energy saved due to energy consumption reduction initiatives and increasing energy efficiency.



Total amount of energy saved by process redesign **1,357 Gigajoules**

INDIRECT ENERGY CONSUMPTION			
SOURCE	2011	2012	2013
Kilowatts	70,351,873	102,638,752	101,729,438
Gigajoules	253,266	369,499	366,225

Electrical power consumption during 2013 was reduced in .88 percent. The goal for 2014 is to decrease .50 percent in consumption at a national level.

ENERGY DIRECT CONSUMPTION (GIGAJOULES)			
SOURCE	2011	2012	2013
Gasoline	11,928,503	11,045,681	8,961,564
Diesel	2,301,673	193,605	1,202,671
Gas	259,927	77,227	102,224

Total fuel consumption 2013 in Gigajoules: **10,266,460**

Base of calculation: total direct energy consumption = direct acquired primary energy + direct produced primary energy - direct sold primary energy.

Gas consumption decreased in 18.86 percent in 2013. The goal for 2014 is achieving a decrease of 10 percent in the total annual consumption.

In 2013 indirect energy consumption was generated due to business traveling (278,925.46 Gj) and due to employee commute (3,301,587.30 Gj) data we started to monitor with the purpose of creating initiatives to reduce its consumption.

An example of these initiatives was the adherence to the Clean Transportation Program promoted by the Environmental and Natural Resources Secretariat, the Communications and Transportation Secretariat and the General Direction of Air Quality Management, which has the objective to increase efficiency in the use of utilitarian vehicles, enabling the reduction of greenhouse gas emissions and use fuels responsibly.

TONS OF CO_2 DISCHARGED				
SOURCE	2011	2012	2013	GOAL FOR 2014
Electrical energy	46,003	67,331	66,520	- .50%
Fuels	13,199	12,484	12,152	- 10%
Domestic waste	628	572	467	- 10%

Out of the total fuels used, 10 thousand 242 tons of CO_2 correspond to gas used in transportation with logistic purposes.

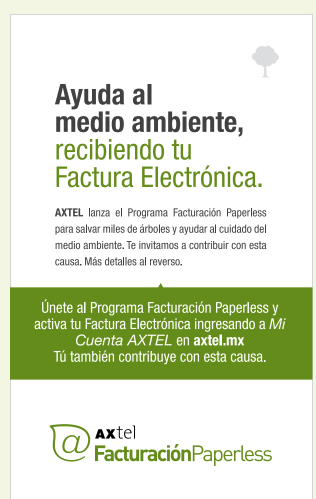
DIRECT AND INDIRECT GREENHOUSE GAS EMISSIONS 2013 IN WEIGHT (TONS)	
Electricity	66,250
Diesel, gas, and gasoline	12,152
TOTAL	78,673

OTHER GREENHOUSE GAS EMISSIONS 2013 IN WEIGHT (TONS)	
Employee commute	12,754
Traveling	945
TOTAL	13,699

Paperless program

We continue with the *Paperless Program* or digital Invoicing. In 2013, 3.6 tons of paper were not used, avoiding cutting 64.8 trees and preventing the discharge of 4.99 tons of CO_2 into the environment. Besides, 36 m3 of water were saved, avoiding generation of 3.6 m3 of waste and the utilization of 43.2 gigajoules of electrical energy.

Thanks to the alliance with XEROX started in 2012, during 2013, 4.32 tons of paper were not used in our offices, preventing cutting of 78 trees, emission of 9.41 tons of CO_2, and the use of 43.2 m3 of water that would have been used in manufacturing paper.



Water EN8 / EN9

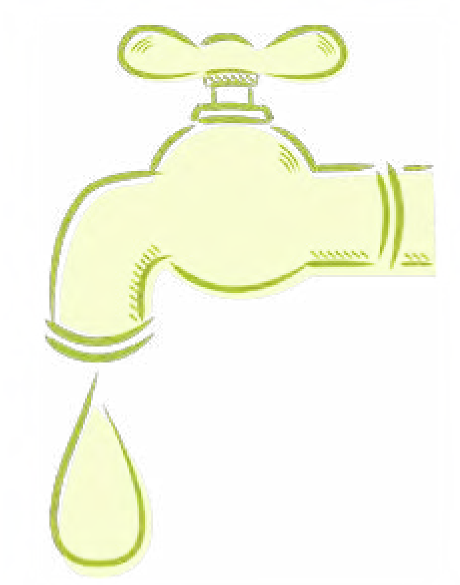
Water consumption is mainly to be used in administrative facilities in toilets, gardens, and air conditioning. The main sources come from municipal supply and in some cases where this service is not available water comes from authorized underground sources.

Water consumption during 2013 showed an increase of 15.73 percent thus the goal for 2014 is reducing consumption in 10 percent.

WATER CONSUMPTION (CUBIC METERS)				
	2011	2012	2013	GOAL FOR 2014
Water	495,893	225,679	267,831	- 10%

WATER CONSUMPTION BY SOURCES		
SOURCE	ANNUAL AMOUNT m3	
	2012	2013
Underground water sources*	34,000	34,000
Municipal water supply	191,679	233,831
TOTAL	225,679	267,831

** Water extracted of an underground source does not risk bio diversity in the region, or the total volume mass of water.*



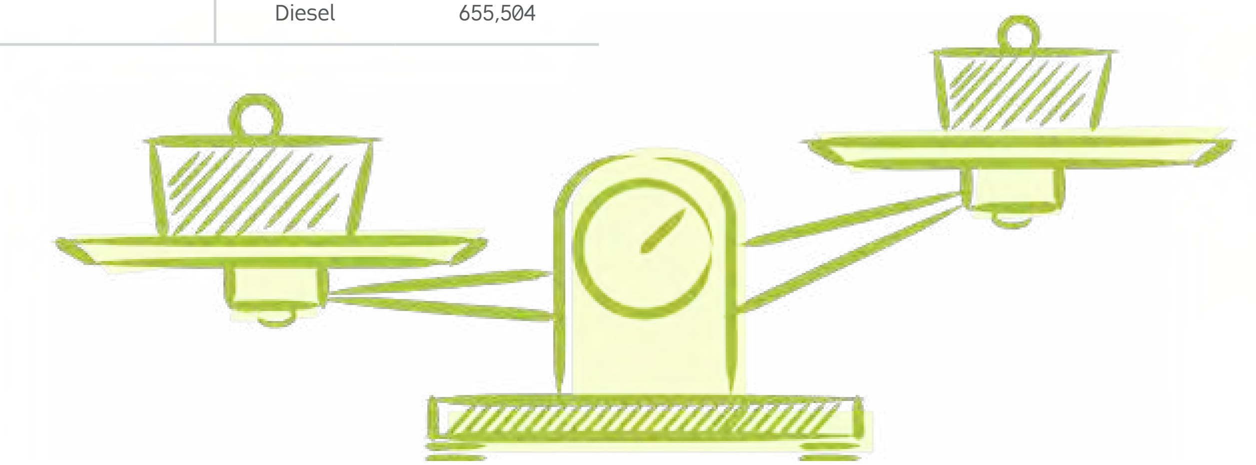
Waste management and disposal EN1 / EN22 / EN24 / EN27 / EN30

Some of the waste generated by the operations in our company are aluminum, cardboard, steel, iron, electronic devices, optical fiber and diesel, thus we have the Waste Management and Disposal Policy, where punctual procedures are established for waste treatment and a guideline is provided to identify the waste generated periodically in our company. The amount invested in 2013 in the correct disposal of Hazardous and non-hazardous waste was of 1 million 086 thousand 468 MXN:

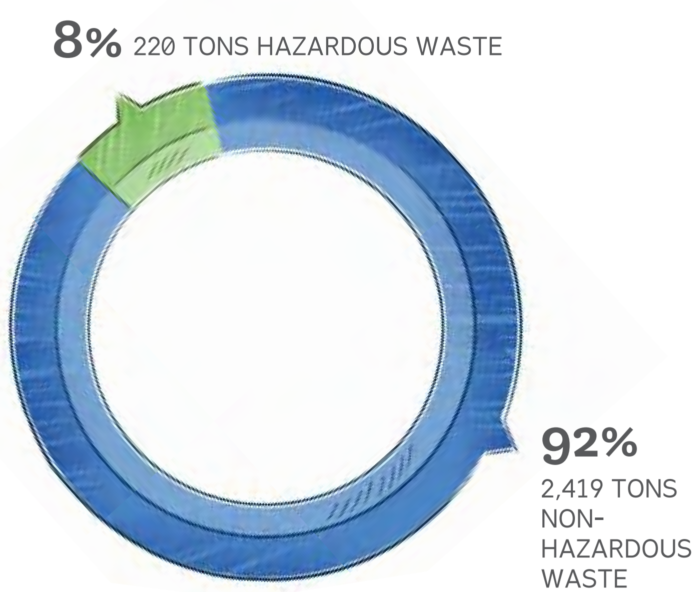
Additionally, we have procedures established according to the Mexican Official Standards (NOM) and Environment and Natural Resources Secretariat (SEMARNAT) due to accumulation of ink cartridges and printer toner, batteries and obsolete computer equipment generated in our administrative offices.

MATERIALS USED BY WEIGHT AND VOLUME		
TYPE	MATERIALS DIVISION	
Direct materials employees (Tons): 4,580	Plastic	100
	Optical fiber	1,248
	Cardboard	10
Non renewable materials employees (liters): 4,949,839	Gasoline	4,239,940
	Gas	54,395
	Diesel	655,504

AMOUNT OF MATERIALS CONSUMED IN 2013	
TYPE	AMOUNT (TONS)
Raw material	4,570
Auxiliary material	57
Semi-finished products or parts	40



Hazardous waste generated by operation in 2013



TOTAL WEIGHT OF WASTE BASED ON TREATMENT METHOD IN 2013	
TYPE OF TREATMENT	TONS
Reutilization	58.48
Recycling	258.82
Landfill	2,316
Onsite storage	5.85
Destruction	1.16

In 2013, 220 tons of hazardous waste were transported to authorized landfills in the municipality of Mina, Nuevo León, and 1.6 tons to be destroyed to Aguascalientes, Aguascalientes.

HAZARDOUS WASTE TRANSPORTED FOR APPROPRIATE CONFINEMENT	
TYPE OF WASTE	TONS
Optical fiber	5.20
Batteries	0.20
Electronic	214.14
Diesel	0.325
Paint	0.046
Gasoline	0.058
Thinner	0.01
White spirits	0.014
Oils	0.067
Toner cartridges	1.16

MATERIALS SENT TO RECYCLING (TONS)				
MATERIAL	2010	2011	2012	2013
Aluminum	1.62	0.20	0.854	2.94
Toner cartridges	0.54	0.92	1.25	1.16
Paper	29.57	20.36	30.30	39.53
PET plastic	1.08	1.34	1.61	4.5

DOMESTIC WASTE AND GREENHOUSE GAS EMISSION GENERATED (TONS)				
SOURCE	2011	2012	2013	GOAL FOR 2014
Waste	3.109	2,833	2,316	- 10%
CO2 discharged	628	572	467	- 10%

There was an 18.24 percent decrease in generation of domestic waste during 2013, thus the goal for 2014 is reducing in 10 percent this type of waste at a national level.

06

FINANCIAL PERSPECTIVE

Financial Perspective EC1 / EC8 / EC9

The improvement in our capital structure and the organizational approach implemented by the end of 2012 and beginning of 2013 enabled us to continue carrying out our business strategy during the year. During 2013 we achieved positive results stemming from a recapitalization plan developed during 2012 and successfully carried out in January 2013.

AXTEL financial strategy is based on a) prudent management of debt, b) an extended maturity profile, according to the investment requirements and repaying periods in our industry and, c) flexible management of liquidity and working capital, due to the cyclical investments and collections mainly in corporate and government client projects.

Our approach on achieving a larger ICT solution share in offerings for corporate and government, and the deployment of optical fiber network directly in homes and businesses for the high value mass market, were the spearhead to improve results in the year.

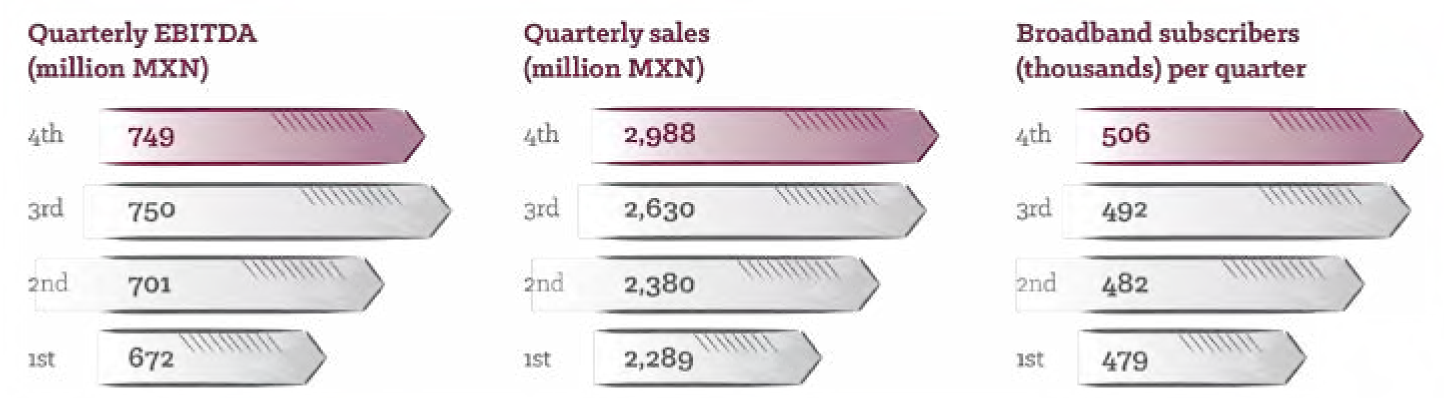
The results in 2013 reflect the operations and financial improvement in AXTEL. Currently the company has a sound capital structure, with a clear and defined strategy and we are taking the necessary actions to restore a profitable and sustained growth through time. Due to the aforementioned, together with the favorable expectations in the application of the telecommunications reform, we see the future with optimism and feel confident that we will continue creating value importantly for our shareholders.

Our financial strategy will continue based on a prudent risk management, with the main purpose of guaranteeing continuity in the execution of the business strategy.

Business highlights

Results (million MXN)	2013	2012	2011
Revenues	10,286	10,190	10,829
Operating Income (Loss)	2,687	(535)	46
Net Income (Loss)	2,408	(709)	(2,070)
FINANCIAL SITUATION (MILLION MXN)			
Total assets	19,883	20,500	22,092
Total liabilities	12,355	15,412	16,290
Stakeholders' Equity	7,528	5,088	5,802
OPERATING CASH FLOW (MILLION MXN)			
Adjusted EBITDA	2,872	2,738	3,569
MEASURES			
EBITDA / Income	27.9%	26.9%	33.0%
Operating (Loss) Profit/ Income	26.1%	-5.2%	0.4%
Net Profit (Loss) / Income	23.4%	-7.0%	-19.1%
Interest Coverage	3.3%	2.6%	3.6
Liabilities / Equity	1.64	3.03	2.81
Total Personnel	6,791	6,541	8,024

2013



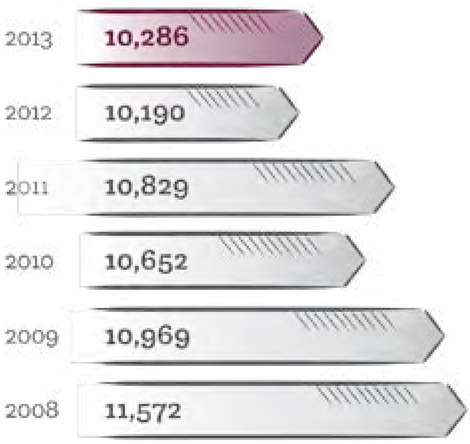
Economic performance reported according to Mexican Financial Reporting Standards (thousands MXN) EC1

	CONCEPT	2013	2012	2011
Generated Economic Value	Earnings	10,286,494	10,189,732	10,829,405
	Earning due to Interests	16,229	21,976	22,340
	Other Earnings	3,033,104	-199,987	-419,450
		13,335,827	10,011,712	10,432,295
Distributed Economic Value	Operating Costs	-2,984,573	-2,854,785	-2,799,269
	Outsourcing	-398,487	-425,474	-427,855
	Social Benefits (Payroll and Derivatives)	-1,759,615	-1,956,608	-2,020,598
	Taxes paid	-75,380	-68,028	-25,245
	Payment to funding sources	-756,135	-1,038,946	-969,724
	Investments in the community (Donations)	-10,510	-14,702	-22,068
		-5,984,700	-6,358,543	-6.264,759
Retained Economic Value	VEG + VED	7,351,127	3,653,169	4,167,536

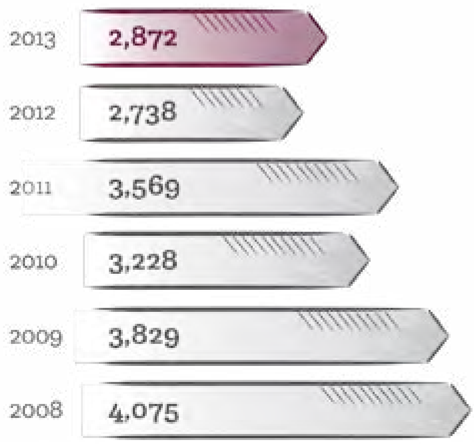
Financial Statements (ER)
Cash flow (FE)
Consolidated Expenses (GC)

Information from 2012 has been prepared under the International Financial Reporting Standards (IFRS). Information from 2010 and previous years has been prepared under the Mexican Financial Reporting Standards (NIF).

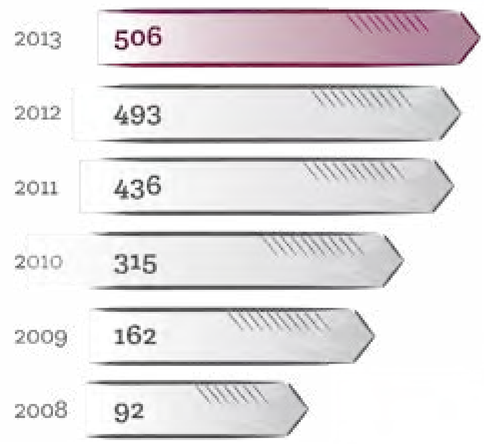
Annual sales (million MXN)



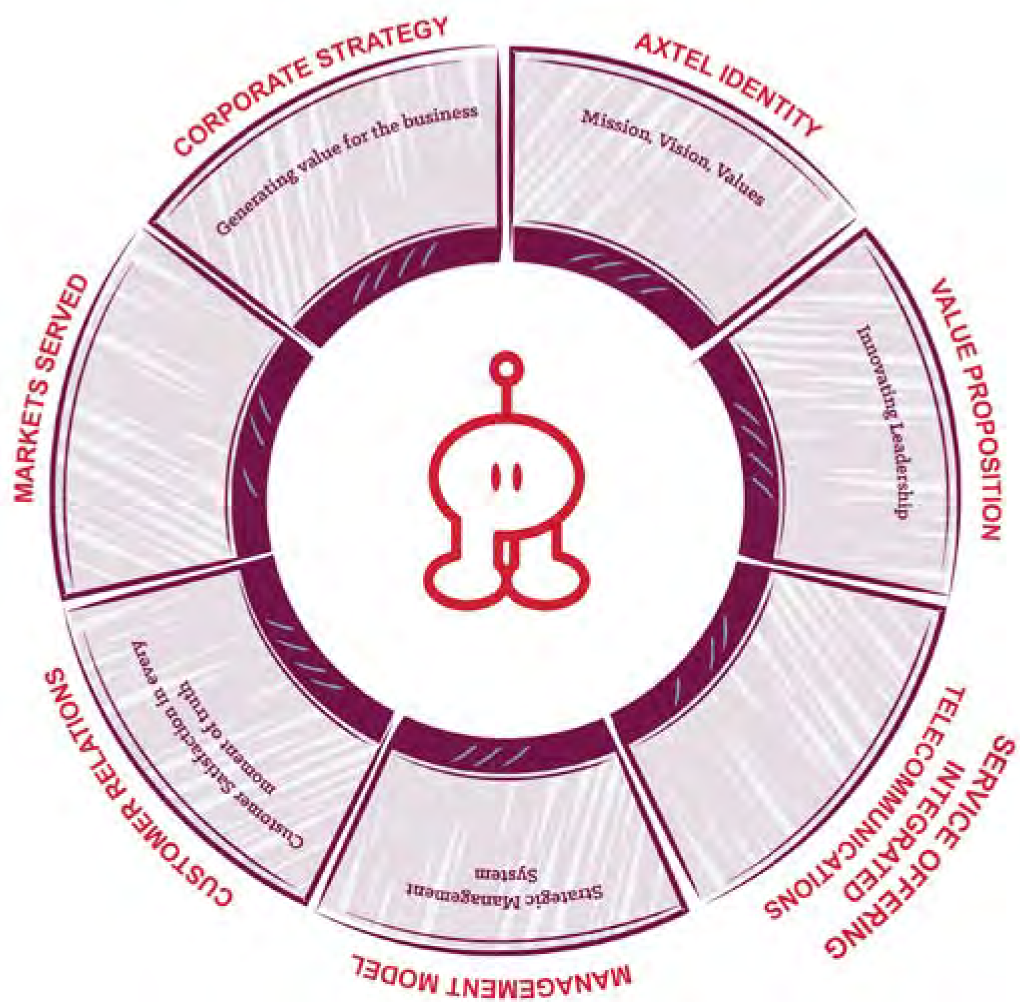
Annual EBITDA (million MXN)



Broadband subscribers (thousands) per year



AXTEL Business Model



Markets served 2.2 / 2.7

Corporate and government market

Government

We had an increase in earnings for the second consecutive year in 2013, increasing 15 percent in this market.

Corporate

We continued working to serve the medium, large and corporate enterprises, through the development of integral solutions specialized in vertical segments of the Financial Sector, Contact Centers and Carriers, aligned on the defined strategy of two lines of business.

Among the main changes carried out in our systems and/or structures to improve performance during 2013 are:

- Adjustment in the variable compensation scheme to boost sales volume.
- Standardization of offerings in products such as: IP Multiservices, Corporate LAN to LAN, Integral Corporate Safety, Corporate and Government Invoicing by Second (local and long distance).
- Redefinition of products-to-be-cancelled portfolio, some due to low profitability or a finished life cycle such as: electronic invoicing, Frame Relay and
- Probusiness and Pyme Plus.
- Improvement in the information support and decision making systems for the sales force and field service.
- Successful continuity of Consulting Sales methodology.
- Redefining segments by blocks, to focus the service levels according to the client's size and potential.

EARNINGS (MILLION MXN)		
SEGMENT	2012	2013
Corporate	4,536	4,492
Government	1,971	2,271
TOTAL	6,508	6,763

CUSTOMERS		
SEGMENT	2012	2013
Corporate	10,112	8,083
Government	328	470
TOTAL	10,440	8,553

Consumption Market

In the Consumption Market we maintain our strategy and attention focused on residential, micro-business, and small businesses, developing offerings and products that may serve the unique needs in these client groups.

The markets served with integrated services of local voice, LD and Internet include 39 of the main metropolitan areas in México, and in them we find approximately 50 percent of the population in México.

Currently, we have deployed optical fiber infrastructure to homes (FTTx) in nine of these large cities, offering integrated services of telephony, broadband up to 200 Mbps and Pay TV. This FTTx network currently covers more than 1.3 million homes and businesses.

We offer multiple telephony services, Internet and Pay TV as part of our portfolio. The services which offer a value added and enable us to provide a differentiated offering include:

- AXTEL Conmigo, service that enables the client to take his fixed line wherever he goes.
- WiFi X-tremo offers connectivity to broadband Internet in a large number of public sites in the main cities in México.
- Expert PC&Mac and Specialized Support X-tremo support users in solving needs related to their computer equipment and Internet service.
- AXTEL Membership, are service packages for emergency services, medical discounts and life insurance providing benefits for the entire family.

Among the main goals established for 2014 we have:

- Enlarging coverage with FTTx technology to more cities and will continue with the penetration efforts in current coverage areas.
- Increasing WiFi X-tremo access points to ease our users' connectivity away from their home.
- Maximizing the use of Wireless infrastructures with telephony and Internet services.
- Consolidation of our sales and customer service channels on line, adapting to the trends in the interaction habits of the market.
- Carrying out improvement actions resulting from the new Customer Satisfaction Model, to redesign the customer relationship experience.

EARNINGS (MILLION MXN)		
SEGMENT	2012	2013
Residential	2,820	2,615
Micro	586	643
Small	276	266
TOTAL	3,682	3,523

CUSTOMERS		
SEGMENT	2012	2013
Residential	637,068	561,607
Micro	64,327	69,697
Small	14,285	13,562
TOTAL	715,680	644,866

Management's Discussion and Analysis of Financial Condition and Operation Results of the Company.

Results of Operation for years ended December 31, 2013 and 2012

Revenues.

For the twelve month period ended December 31, 2013, total revenues reached Ps. 10,286 million, compared with Ps.10,190 million for the year ended 2012, an increase of Ps. 97 million, or 1%.

AXTEL's revenues derive from the following services:

Local Services.
Revenue from local services for the twelve month period concluded on December 31, 2013 added up Ps. 3,208 million, compared with Ps. 3,619 million pesos recorded for the same period of the previous year, a reduction of Ps. 411 million or 11% explained by Ps. 250, Ps. 60 and Ps. 100 million reductions in monthly rents, measured services and fixed-to-mobile revenues, respectively.

Long Distance Services.
For the twelve month period concluded on December 31, 2013, revenue for long distance totaled Ps. 1,140 million compared to Ps. 1,236 million recorded for the same period of 2012, a decrease of Ps. 97 million or 8%, due to decreases of 6% and 23% in national and international long distance respectively.

Internet & Video.
For year 2013, revenues for Internet and video services amounted Ps. 1,043 million, a 31% increase compared with year 2012, mainly due to a 19% increase in internet to the mass market and the new pay-tv service which started in January 2013.

Data and Networks.
For the period of twelve months concluded on December 31, 2013, revenue for networks and data services reached Ps. 1,860 million, from Ps. 1,998 million in 2012, a decrease of Ps. 138 million, or 7%, explained by 6% and 8% reductions in dedicated Internet and virtual private networks respectively.

Integrated Services and Equipment Sales.
Revenues totals Ps. 1,884 million for year 2013, compared with Ps. 1,494 million during 2012, representing a Ps. 390 million or 26% increase. This is mainly explained by a 40% increase in integrated services to the enterprise and government segments.

International Traffic.
The revenue for completion of international traffic added up Ps. 764 million in the twelve month period ended on December 31 2013, a 17% increase compared to the same period for 2012, explained by a 32% increases in prices, due to a change in volume mix towards more mobile minutes traffic. Despite an increase in revenues, contribution margin for this business decreased in 2013 compared with 2012 due to lower margins.

Other Services.
For the twelve month period ended December 31, 2013 revenue from other services added up Ps. 387 million compared to a very similar Ps. 388 million recorded on the same period in 2012.

Operating Metrics

RGUs and Customers.
As of December 31, 2013, RGUs (Revenue Generating Units) added up one million 504 thousand, which represents an increment of 1% with respect to December 31, 2012. During 2013, RGUs net additions totaled 13 thousand compared to 16 thousand during the previous year, attributable to a greater number of wireless Internet disconnections during the first months of 2013. As of December 31, 2013, customers totaled 640 thousand, a decrease of 69 thousand or 10% compared to the same date in 2012.

Voice RGUs (Lines in Service).

As of December 31, 2013, the lines in service added up 936 thousand, which represents a decrease of 61 thousand lines compared to December 31, 2012. During 2013, gross additional lines reached 207 thousand compared to 242 thousand during 2012. Disconnections during 2013 and 2012 reached 269 thousand and 284 thousand respectively. As of December 31, 2013, residential lines represented 62% of total lines in service.

Broadband RGUs (Broadband Subscribers).

Broadband subscribers reached 506 thousand as of December 31, 2013. During this year, broadband subscribers increased 13 thousand compared to 57 thousand the previous year. As of December 31, 2013, WiMAX subscribers reached 347 thousand, compared to 377 thousand a year ago, while Axtel X-tremo, or FTTH, subscribers reached 148 thousand compared to 100 thousand a year ago. The slower pace in broadband additions is mainly due to the acceleration in WiMAX disconnections during the first half of 2013 that could not be totally compensated with additions of FTTH subscribers. Broadband penetration reached 54% at the end of 2013, compared to 49% a year ago.

Video RGUs (Video Subscribers).

As of December 31, 2013, video subscribers reached 61 thousand, compared to 1 thousand a year ago; this demonstrates the acceptance of the new pay-tv service, Axtel TV, offered through our fiber or FTTH network.

Cost of Revenues and Expenses

Cost of Revenues.

During the twelve month period ended December 31, 2013, the cost of revenues reached Ps. 2,985 million, an increase of Ps. 130 million with respect to 2012, explained by increases in costs related to international traffic service.

Gross Profit.

Gross profit is defined as revenues minus cost of sales. For the twelve month period ended December 31, 2013, the gross profit reached Ps. 7,302 million, from Ps. 7,335 million recorded in 2012, a decrease of Ps. 33 million. This was mainly due to decreases in the gross profit of local, long distance and data services due to lower revenues, partially compensated with increases in revenues and contribution margin of internet and video and integrated services.

Operating Expenses.

For the twelve month period ended December 31, 2013, the operating expenses totaled Ps. 4,430 million from Ps. 4,597 million for the same period in 2012, a 4% decrease due to reductions in personnel and maintenance expenses, partially mitigated by increase in rents due to the lease expense of the towers sold in January 2013. Personnel expenses represented 40% of the total expenses for the twelve month period ended December 31, 2013.

Adjusted EBITDA.

The adjusted EBITDA, defined as gross profit plus expenses for net interest, taxes, depreciation and amortization, and adjusted for extraordinary non-recurrent income and expenses reached Ps. 2,872 million, compared to Ps. 2,738 million for the same period in 2012. As a percentage of revenues, the margin was of 27.9% for 2013, 105 basis points more than the margin for 2012.

Depreciation and Amortization.

The depreciation and amortization for the twelve month period ended on December 31, 2013 was of Ps. 3,219 million, compared to Ps. 3,073 million for the same period in 2012, an increase of Ps. 145 million.

Operating income (loss).

For the twelve month period ended December 31, 2013, the operating income reached Ps. 2,687 million, compared to an operating loss of Ps. 535 million in 2012, a Ps. 3,222 million variation mainly due to the gain related to the telecommunication towers sale in January 2013.

Comprehensive Financial Result

The comprehensive financing gain was of Ps. 737 million in 2013, compared to a cost of Ps. 347 million in 2012 mainly due to the gain resulting from the debt exchange concluded on January 2013 and a 16% reduction in interest expense in 2013.

Taxes

In 2013 the income tax was of Ps. 1,018 million, compared with a benefit of Ps. 173 million last year. This tax was mainly due to gains from the telecommunication towers sale in January 2013.

Net Income (Loss)

The Company reported a net income of Ps. 2,408 million in the twelve months ended December 31, 2013, compared with a net loss of Ps. 709 million in 2012. This income is explained by the changes outlined above, including gains from the tower sale and debt exchange.

Capital Investments

For the twelve month period ended December 31, 2013, capital investments totaled Ps. 2,118 million, compared to Ps. 2,016 million in the year 2012. This variation reflects the Company's corporate strategy to focus exclusively on projects of greater value for customers, principally the deployment of fiber and cloud-based ICT products.

Financial Position, Liquidity and Capital Resources as of December 31, 2013, compared to the financial position as of December 31, 2012.

Historically the Company has relied primarily on vendor financing, the proceeds of the sale of securities, internal cash from operations, funds obtained from the issuance of debt in international markets, and the proceeds from bank debt to fund our operations, capital expenditures and working capital requirements. Additionally, and subject to (i) market conditions, (ii) our liquidity position and (iii) contractual obligations, from time to time, the Company might acquire senior secured and unsecured notes in the open market or in privately negotiated transactions. 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, the Company may seek additional financing with commercial banks or in the capital markets from time to time depending on market conditions and the Company's financial requirements. The Company will continue to focus on investments in fixed assets and working capital management, including the collection of accounts receivable and management of accounts payable.

Assets

As of December 31, 2013, total assets amount Ps. 19,883 million compared to Ps. 20,500 million as of December 31, 2012, a decrease of Ps. 618 million.

Cash and Equivalents.

As of December 31, 2013, we had cash and equivalents of Ps. 1,292 million compared to Ps. 608 million as of December 31, 2012, an increase of Ps. 684 million or 113%.

Accounts Receivable.

As of December 31, 2013, the accounts receivable were Ps. 2,982 million compared with Ps. 2,407 million as of December 31, 2012, an increase of Ps. 575 million or 24%.

Property, Systems and Equipment, net.

As of December 31, 2013, property, systems and equipment, net, reached Ps. 13,187 million compared with Ps. 13,998 million as of December 31, 2012, a decrease of Ps. 811 million. The property, systems and equipment, without discounting the accumulated depreciation, was Ps. 38,148 million and Ps. 35,653 million as of December 31, 2013 and 2012, respectively.

Liabilities

As of December 31, 2013, total liabilities reached Ps. 12,355 million compared to Ps. 15,412 million as of December 31, 2012, a decrease of Ps. 3,057 million, mainly due to the debt exchanges concluded in January 2013 and December 2013.

Accounts Payable and Accrued Expenses.

As of December 31, 2013, the accounts payable and accrued expenses were Ps. 2,741 million compared with Ps. 2,404 million as of December 31, 2012, an increase of Ps. 337 million, or 14%.

Debt.
As of December 31, 2013, total debt , total debt reached Ps. 7,864 million, a decrease of Ps. 3,602 million in comparison with the same date in 2012, explained by (i) a Ps. 2,663 million net reduction related to the January and December 2013 exchanges of the senior notes due 2017 and 2019, (ii) a Ps. 1,058 million decrease in bank debt related to the prepayment of the syndicated bank facility, (iii) an increase of Ps. 5 million in leases and financial obligations, (iv) a Ps. 138 million decrease in notes issuance and deferred financing costs, and (v) a Ps. 39 million non-cash increase caused by the 0.5% depreciation of the Mexican peso.

As of December 31, 2013, the net debt to adjusted EBITDA ratio and the interest coverage ratio of the Company were 2.3x and 3.3x, respectively. Likewise, as of December 31, 2012, the net debt to adjusted EBITDA ratio and interest coverage ratio were 4.0x and 2.6x respectively.

Stockholders' Equity

As of December 31, 2013, the stockholders' equity of the Company totaled Ps. 7,528 million compared with Ps. 5,088 million as of December 31, 2012, an increase of Ps. 2,439 million or 48%. The capital stock was Ps. 6,628 million as of December 31, 2013 compared to Ps. 6,626 as of December 31, 2012, a slight increase mainly due to the conversion of some of the Company's Senior Secured Convertible Notes due 2020.

Cash flow

As of December 31, 2013 and 2012, net cash flows derived from operating activities were Ps. 2,559 million and Ps. 2,204 million respectively.

As of December 31, 2013 and 2012 net cash flows (used in) generated by the company in investing activities were Ps. 1,050 million and Ps. (2,031) million respectively. These amounts reflect investments in property, systems and equipment of Ps. (2,118) million and Ps. (2,016) million pesos for 2013 and 2012 respectively.

As of December 31, 2013 and 2012 net cash flows (used in) generated by financing activities were Ps. (2,934) million and Ps. (1,003) million respectively.

Independent Auditors' Report

(Translation from Spanish Language Original)

To the Board of Directors and Stockholders of
Axtel, S. A. B. de C. V.:

We have audited the accompanying consolidated financial statements of Axtel, S. A. B. de C. V, and subsidiaries (the Company), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012 and the consolidated statements of comprehensive income, changes in stockholders' equity and cash flows for the years ended December 31, 2013 and 2012 and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Axtel, S. A. B. de C. V, and subsidiaries, as of December 31, 2013 and 2012 and the consolidated results of their operations and consolidated cash flows for the years ended December 31, 2013 and 2012, in accordance with International Financial Reporting Standards.

Emphasis paragraphs

Without qualifying our opinion, we draw attention to the following:

As mentioned in notes 23 (b) and 23 (c), the Company has contingencies related to interconnection rates with mobile operators and with long distance terminating calls with one of its main suppliers. As of December 31, 2013, the difference between the amounts paid by the Company and the amounts billed by the mobile operators and one of its main suppliers amounted to approximately $2,169 and $1,240 million of pesos, respectively, before value added tax. As of the date of this report, Company Management and legal counsel consider that they have sufficient elements for a favorable outcome in the trials related to these contingencies.

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C.P.C. Leandro Castillo Parada

February 28, 2014
Monterrey, N.L. México

AXTEL, S. A. B. DE C. V. AND SUBSIDIARIES
Consolidated Statements of Financial Position
Years ended December 31, 2013 and 2012
(Thousands of pesos)

These financial statements have been translated from Spanish language original and for the convenience of foreign English – speaking readers

	NOTE		2013	2012
ASSETS				
Current assets:				
Cash and cash equivalents	7	Ps	1,292,263	597,201
Restricted cash	7		-	10,709
Accounts receivable	8		2,981,732	2,406,764
Refundable taxes			57,219	91,069
Prepaid expenses			65,578	52,188
Inventories	9		106,313	105,471
Financial instruments	7		142,200	88,419
Assets classified as held for sale	10		-	460,462
Other accounts receivable			103,699	-
Other current assets	13		130,492	141,439
Total current assets			4,879,496	3,953,722
Long-term accounts receivable			333,751	15,470
Property, systems and equipment	10		13,187,187	13,997,994
Intangible assets	11		223,792	288,622
Deferred income taxes	19		1,101,937	2,081,718
Investments in associates	12		11,640	9,647
Other assets	13		144,849	153,158
Total assets		Ps	19,882,652	20,500,331
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities		Ps	2,741,308	2,404,471
Accrued interest			278,807	276,043
Taxes payable			285,987	135,703
Current maturities of long-term debt	14		308,945	411,969
Current portion of provisions	17		-	281,808
Deferred revenue	18		583,915	631,298
Derivative financial instruments	7		-	46,532
Other current liabilities	15		100,473	106,702
Total current liabilities			4,299,435	4,294,526
Long-term debt	14		7,555,374	11,054,645
Derivative financial instruments	7		116,658	-
Other liabilities			328,297	9,534
Employee benefits	16		21,330	19,452
Deferred revenue	18		33,900	33,900
Total liabilities			12,354,994	15,412,057
Stockholders' equity:				
Common stock	20		6,627,890	6,625,536
Additional paid-in capital	20		644,710	644,710
Reserve for repurchase of own shares	20		162,334	162,334
Retained earnings (deficit)			92,724	(2,314,955)
Accumulated other comprehensive income	20		-	(29,351)
Total stockholders' equity			7,527,658	5,088,274
Commitments and contingencies	23			
Total liabilities and stockholders' equity		Ps	19,882,652	20,500,331

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

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

Consolidated Statements of Comprehensive Income

Years ended December 31, 2013 and 2012
(Thousands of pesos)

These financial statements have been translated from Spanish language original and for the convenience of foreign English – speaking readers

	NOTE		2013	2012
Telephone services and related revenues	21	Ps	10,286,494	10,189,732
Operating costs and expenses:				
Cost of revenues and services			(2,984,573)	(2,854,785)
Selling and administrative expenses			(4,429,798)	(4,596,598)
Depreciation and amortization			(3,218,539)	(3,073,240)
Gain on sale of communications towers	10		3,111,948	-
Other expenses	22		(78,844)	(199,987)
Operating income (loss)			2,686,688	(534,878)
Interest expense	10		(882,454)	(1,057,513)
Interest income			16,229	21,967
Foreign exchange gain, net			39,682	797,630
Result from the exchange of debt, net	2		1,568,983	-
Change in the fair value of financial instruments, net	7		(5,303)	(109,197)
Net finance costs			737,137	(347,113)
Equity in earnings of associated company	12		1,992	(20)
Income (loss) before income taxes			3,425,817	(882,011)
Income taxes:				
Current	19		(50,817)	(53,022)
Deferred	19		(967,321)	226,164
Total income tax (expense) benefit			(1,018,138)	173,142
Net income (loss)		Ps	2,407,679	(708,869)
Other comprehensive income items:				
Valuation effects of cash flow hedges, net of income tax	20		29,351	(5,043)
Comprehensive income (loss)		Ps	2,437,030	(713,912)
Weighted average number of common shares outstanding			8,770,179,989	8,769,353,223
Basic income (loss) per share		Ps	0.27	(0.08)

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

AXTEL, S. A. B. DE C. V. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended December 31, 2013 and 2012
(Thousands of pesos)

These financial statements have been translated from Spanish language original and for the convenience of foreign English – speaking readers

		2013	2012
Cash flows from operating activities:			
Net income (loss) for the period	Ps	2,407,679	(708,869)
Adjustments for:			
Income tax		1,018,138	(173,142)
Foreign exchange gain, net		(39,682)	(797,630)
Depreciation		3,167,254	3,021,210
Amortization		51,285	52,030
Impairment loss recognized on trade receivables		199,524	201,473
Gain on sale of property, system and equipment		(1,716)	(429)
Allowance for obsolete and slow-moving inventories		25,773	21,408
Gain on sale of communications towers		(3,111,948)	-
Share of losses of equity-accounted investees		(1,992)	20
Interest expense		882,454	1,057,513
Amortization of premium on bond issuance		(2,090)	(6,236)
Result from the exchange of debt, net		(1,568,983)	-
Fair value gain on financial instruments		5,303	109,197
		3,030,999	2,776,545
Movements in working capital:			
Increase in accounts receivable		(645,708)	(482,751)
(Increase) decrease in inventories		(842)	47,284
Increase (decrease) in accounts payable		297,793	(132,263)
(Decrease) increase in deferred revenue		(47,383)	63,420
Cash generated from operating activities		2,634,859	2,272,235
Taxes paid		(75,380)	(68,028)
Net cash from operating activities		2,559,479	2,204,207
Cash flows from investing activities:			
Acquisition and construction of property, systems and equipment		(2,118,210)	(2,016,223)
Sale of property, systems and equipment		3,164,046	-
Other assets		4,205	(15,075)
Net cash generated from (used in) investing activities		1,050,041	(2,031,298)
Cash flows from financing activities:			
Interest paid		(756,135)	(1,038,846)
Exchange of debt		(1,326,887)	-
Proceeds of notes		442,014	-
Proceeds of bank loans		-	261,862
Payments of bank loans		(1,042,116)	-
Other long terms loans, net		(173,375)	(333,027)
Proceeds from issuance of capital stock		384	-
(Payments) proceeds of derivative financial instruments		(77,982)	107,044
Net cash flow used in financing activities		(2,934,097)	(1,002,967)
Net increase (decrease) in cash and cash equivalents		675,423	(830,058)
Cash and cash equivalents at beginning of the year		597,201	1,372,896
Effects of exchange rate fluctuations on cash and cash equivalents held		19,639	54,363
Cash and cash equivalents at the end of the year	Ps	1,292,263	597,201

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

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

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2013 and 2012
(Thousands pesos)

These financial statements have been translated from Spanish language original and for the convenience of foreign English – speaking readers

		Capital Stock	Additional paid-in capital	Reserves for repurchase of own shares	Retained earnings (Deficit)	Accumulated other comprehensive income	Total stockholders' equity
Balances as of January 1, 2012	Ps	6,625,536	644,710	162,334	(1,606,086)	(24,308)	5,802,186
Comprehensive loss (note 20c)		-	-	-	(708,869)	(5,043)	(713,912)
Balances as of December 31, 2012		6,625,536	644,710	162,334	(2,214,955)	(29,351)	5,088,274
Increase of capital stock (note 20a)		2,354	-	-	-	-	2,354
Comprehensive income (note 20c)		-	-	-	2,407,679	29,351	2,437,030
Balances as of December 31, 2013	Ps	6,627,890	644,710	162,334	92,724	-	7,527,658

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

AXTEL, S. A. B. DE C. V. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
At December 31, 2013 and 2012
(Thousands of pesos)

(1) Reporting entity

Axtel, S.A.B. de C.V. ("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 and pay-tv services. A concession is required to provide these services and carry out the related activities, (see notes 5 (j) and 11). 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. The corporate domicile of the Company located in Blvd. Díaz Ordaz km 3.33 L-1, Colonia Unidad San Pedro, 66215 San Pedro Garza García, Nuevo León, Mexico. Axtel's primary activities are carried out through different operating entities which are its direct or indirect subsidiaries (collectively with Axtel referred to herein as the "Company").

(2) Significant events

During December 31, 2013, the Company completed the exchange of U.S.$ 82.5 million and U.S.$ 32.8 million of unsecured notes due in 2017 and 2019, respectively, for U.S.$ 110 million of secured bonds due in 2020 with the same conditions and interest rates described in the January 2013 exchange mentioned in the following paragraphs. This transaction resulted in a gain of Ps. 30,658 which is presented in the accompanying consolidated statements of comprehensive income. In addition, on December 13 and 26, 2013, the Company closed an offering of additional 2020 Notes for Ps. 26 million and Ps.10 million, additional bonds were issued at a price of 93.75% of their principal value.

According to the unanimous resolutions adopted by the shareholders of Axtel Capital, S. de R.L. de C.V. (Axtel Capital) and Avantel, S. de RL de C.V. (Avantel), on February 15, 2013 the merger of Axtel Capital (as the merger company), with Avantel (as the merging company), the merger became effective as of February 27, 2013 and has no impact on operations at the consolidated level.

On January 31, 2013, the Company completed the sale of 883 sites to MATC Digital Telecommunications, S. de R.L. de C.V. ("MATC"), a subsidiary of American Tower Corporation, in the amount of U.S.$ 249 million. This transaction resulted in a gain of Ps.3,111,948 which is presented as operating income in the accompanying condensed consolidated statement of comprehensive income. Additionally, the Company agreed to lease certain spaces at these locations in terms ranging from 6 to 15 years, depending on the type of technology installed at each site, for a net yearly cost of approximately U.S.$ 20 million.

Simultaneously, the Company completed the exchange of U.S.$ 142 and U.S.$ 355 million of unsecured notes due in 2017 and 2019, respectively, for U.S.$ 249 and U.S.$ 22 million dollars secured bond and a convertible bond, respectively, both with initial interest rate of 7% which will be increase to 8% in the first anniversary date and to 9% in the second anniversary date, and due in 2020, plus a cash payment of U.S. $83 million to participating holders. Holders of the convertible notes may elect to convert their Convertible Dollar-Indexed Notes Into ADSs of CPOs at any time after 120th calendar day following the issue date and prior to the close of business on the fourth business day immediately preceding the maturity date for the convertible notes, or at the election of the Company such conversion may be settled in cash. This transaction resulted in a gain of Ps.1,538,325 which is presented in other income in the accompanying condensed consolidated statements of comprehensive income.

Additionally, the Company performed the full payment of the remaining balance of the syndicated loan, interest and related derivative transactions, amounting approximately U.S.$ 88 million.

(3) Consolidation of financial statements

The consolidated financial statements include those of Axtel, and those of the entities over which it exercises control on the financial and operating policies. The subsidiaries included in the consolidated interim financial statements are presented as follows:

SUBSIDIARY	ACTIVITY	% EQUITY INTEREST
Instalaciones y Contrataciones, S.A. de C.V. ("Icosa")	Administrative services	100%
Servicios AXTEL, S.A. de C.V. ("Servicios AXTEL")	Administrative services	100%
Avantel, S. de R.L. de C.V. ("Avantel")	Telecommunication services	100%
Avantel Infraestructura S. de R.L. de C.V. ("Avantel Infraestructura")	Telecommunication services	100%
Telecom Network, Inc ("Telecom")	Telecommunication services	100%
Avantel Networks, S.A. de C.V. ("Avantel Network")	Telecommunication services	100%
AXTEL Capital, S. de R.L. de C.V. (AXTEL Capital)	Administrative services	100%

The Company owns directly or indirectly 100% of the subsidiaries. Intercompany balances, investments and transactions were eliminated in the consolidation process.

(4) Basis of preparation

a) Statement of compliance

This consolidated financial statements has been prepared in accordance with the International Financial Reporting Standards (IFRS).

This consolidated financial statements was authorized for issue by the Company's Director of Administration and Human Resources on February 28, 2014.

b) Basis of measurement

The information presented in the consolidated financial statements has been prepared on a historical cost basis, except for certain financial instruments. The historical cost is generally based on the fair value of the consideration granted in exchange of the related assets.

c) Functional and presentation currency

These consolidated financial statements are presented in Mexican pesos, which is the Company's functional currency. All financial information presented in 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.

d) Presentation of the consolidated statement of comprehensive income

The Company has elected to analyze expenses recognized in profit and loss based on functions, as the Company believes that in this way the information presented is reliable and more relevant.

(5) Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

a) Cash and cash equivalents

Cash and cash equivalents consist of short-term investments, highly liquid, readily convertible into cash and are subject to insignificant risk of changes in value, including overnight repurchase agreements and certificates of deposit with an initial term of less than three months.

b) Restricted cash

The Company restricted cash as of December 31, 2012, presented in the consolidated statements of financial position, amounted to Ps.10,709, derived from various financial instrument contracts mentioned in note 7 and the syndicated loan mentioned in note 14.

c) Financial assets

Financial assets are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and the intention is to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets are classified within the following specific categories: “financial assets at fair value with changes through profit or loss,” “investments held to maturity”, “assets available for sale” “loans and accounts payable.” The classification depends on the nature and purpose thereof and is determined upon initial recognition.

Financial assets valued at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss if they are acquired to be sold in a short term. Derivative financial instruments are classified at fair value through profit or loss, unless they are designated as hedging instruments. Financial assets classified at fair value through profit or loss is recognized initially at fair value, and subsequently changes in fair value are recognized in income or loss in the consolidated statement of comprehensive income.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as such or that are not classified in any of the previously mentioned categories and do qualify as held-to-maturity investments. Available-for-sale financial assets are recognized initially at their fair value plus any costs directly attributable to the transaction. After initial measurement, available-for sale financial assets are valued at their fair value and the unrealized gains or losses are recognized as a separate item in the other comprehensive income in the stockholders’ equity within other comprehensive income. When the available-for-sale financial assets are sold, all previous fair value adjustments recognized directly in the other comprehensive income in the stockholders’ equity are reclassified to the consolidated statements of comprehensive income.

Receivables

Trade accounts receivable and other accounts receivable with fixed or determinable payments that are not traded on an active market are classified as “Receivables”. Receivables are valued at amortized cost using the effective interest rate method, less any impairment losses. Interest income is recognized applying the effective interest rate method.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and allocating interest income or financial cost over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees and basis points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount.

Write-off of financial assets

The Company writes off a financial asset solely where the contractual rights over the financial asset cash flows expire or substantially transfers the risks and benefits inherent to the ownership of the financial asset.

d) Impairment of financial instruments

The Company assesses at each financial reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial the estimated future cash flows that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and when observable data indicate that there is a measurable decrease in the estimated future cash flows.

Financial assets carried at amortized cost

If there is objective evidence of an impairment loss, the amount of the loss is measured as the difference between the book value of the asset and the present value of expected future cash flows (excluding expected future credit losses that have not yet been incurred). The present value of expected future cash flows is discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced through a provision and the amount of the loss is recognized in the consolidated statement of comprehensive income. The loans and the related provisions are written off when there is no realistic possibility of future recovery and all of the collateral guarantees have been realized or transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases due to an event that occurs after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the provision account. If a future write-off is later recovered, the recovery is credited to the consolidated interim statement of comprehensive income. If there is objective evidence of impairment in financial assets that are individually significant, or collectively for financial assets that are not individually significant, or if the Company determines there to be no objective evidence of impairment for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and they are collectively evaluated for impairment. Assets that are assessed individually for impairment and for which an impairment loss is or continues to be recognized are not included in the collective evaluation of impairment.

Available-for-sale financial instruments

If an available-for-sale asset is impaired, the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated interim recognition of the asset and that had a negative impact on statement of comprehensive income, is reclassified from comprehensive income or loss in stockholders' equity to the consolidated statement of comprehensive income. For equity instruments classified as available-for-sale, if there is a significant or prolonged decline in their fair value to below acquisition cost, impairment is recognized directly in the consolidated statement of comprehensive income but subsequent reversals of impairment are not recognized in the consolidated statement of comprehensive income. Reversals of impairment losses on debt instruments are reversed through the consolidated statement of comprehensive income; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized.

e) Derivative financial instruments

Hedging instruments

The Company recognizes all derivative financial instruments as financial assets and/or liabilities, which are stated at fair value. At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk. This documentation includes the identification of the derivative financial instrument, the item or transaction being hedged, the nature of the risk to be reduced, and the manner in which its effectiveness to diminish fluctuations in fair value of the primary position or cash flows attributable to the hedged risk will be assessed. The expectation is that the hedge will be highly effective in offsetting changes in fair values or cash flows, which are continually assessed to determine whether they are actually effective throughout the reporting periods to which they have been assigned. Hedges that meet the criteria are recorded as explained in the following paragraphs:

Cash flow hedges

For derivatives that are designated and qualify as cash flow hedges and the effective portion of changes in fair value are recorded as a separate component in stockholders' equity within other comprehensive income and are recorded to the consolidated interim statement of comprehensive income at the settlement date, as part of the sales, cost of sales and financial expenses, as the case may be. The ineffective portion of changes in the fair value of cash flow hedges is recognized in the consolidated statement of comprehensive income of the period.

If the hedging instrument matures or is sold, terminated or exercised without replacement or continuous financing, or if its designation as a hedge is revoked, any cumulative gain or loss recognized directly within other comprehensive income in stockholders' equity from the effective date of the hedge, remains separated from equity until the forecasted transaction occurs when it is recognized in income. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss recognized in stockholders' equity is immediately carried to profit and loss. Derivatives designated as hedges that are effective hedging instruments are classified based on the classification of the underlying. The derivative instrument is divided into a short-term portion and a long-term portion only if a reliable assignation can be performed.

Embedded derivatives

This type of derivatives is valued at fair value and changes in fair value are recognized in the consolidated statement of comprehensive income.

f) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments that are not traded on an active market, the fair value is determined using appropriate valuation techniques. These techniques may include using recent arm's-length market transactions; reference to the current fair value of another financial instrument that is substantially the same; discounted cash flow analysis or other valuation models.

g) Inventories and cost of sales

Inventories are stated at the lower of historical cost or net realizable value. Cost of sales 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.

Net realizable value is the sales price estimated in the ordinary course of operations, less applicable sales expenses.

h) Investments in associates and joint ventures and other equity investments

Investments in associates are those in which significant influence is exercised on their administrative, financial and operating policies.

Such investments are initially valued at acquisition cost, and subsequently, using the equity method, the result thereof is recognized on profit and loss.

Other equity investments in which the Company does not exercise significant influence the investees' capital stock are recorded at cost as their fair value is not reliably determinable.

i) Property, systems and equipment

Property, systems and equipment, including capital leases, and their significant components are initially recorded at acquisition cost and are presented net of the accumulated depreciation and associated impairment losses.

Depreciation is calculated using the straight line method based on the value of the assets and their estimated useful life, which is periodically reviewed by the Company's management.

Depreciation

The estimated useful lives of the Company's assets property, systems and equipment are as follows:

	USEFUL LIVES
Building	25 years
Computer and electronic equipment	3 years
Transportation equipment	4 years
Furniture and fixtures	10 years
Network equipment	6 to 28 years
Leasehold improvements	5 to 14 years

Leasehold improvements are amortized over the useful life of the improvement or the related contract term, whichever is shorter.

Subsequent costs

The cost of replacing a component of an item of property, systems and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. 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.

Decommissioning and remediation obligations

The Company recognizes a provision for the present value associated with the Company's decommissioning and remediation obligations to remove its telecommunication towers and capitalized the associated cost as a component of the related asset. Adjustments to such obligations resulting from changes in the expected cash flows are added to, or deducted from, the cost of the related asset in the current period, except to the extent that the amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognized immediately in profit or loss.

Borrowing costs

Borrowing costs directly related to the acquisition, construction of production of qualifying assets, which constitute assets that require a substantial period until they are ready for use, are added to the cost of such assets during the construction stage and until commencing their operations and/or exploitation. Yields obtained from the temporary investment of funds from specific loans to be used in qualifying assets are deducted from costs for loans subject to capitalization. All other borrowing costs are recognized in profits and losses during the period in which they were incurred.

j) Intangibles assets

The amounts expensed for intangible assets are capitalized when the future economic benefits derived from such investments, can be reliably measured. According to their nature, intangible assets are classified with determinable and indefinite lives. Intangible assets with determinable lives are amortized using the straight line method during the period in which the economic benefits are expected to be obtained. Intangible assets with an indefinite life are not amortized, as it is not feasible to determine the period in which such benefits will be materialized; however, they are subject to annual impairment tests. The price paid in a business combination assigned to intangible assets is determined according to their fair value using the purchase method of accounting. Research and development expenses for new products are recognized in results as incurred.

Telephone concession rights are included in intangible assets and amortized over a period of 20 to 30 years (the initial term of the concession rights).

Intangible assets also include infrastructure costs paid to Telmex / Telnor.

As a consequence of the acquisition of Avantel, the Company identified and recognized the following intangible assets: trade name, customer relationships and concession rights (see note 11). At December 31, 2013 and 2012, the values of the trade name and of customer relationships were totally amortized.

k) Impairment of non-financial assets

The Company reviews carrying amounts of its tangible and intangible assets in order to determine whether there are indicators of impairment. If there is an indicator, the asset recoverable amount is calculated in order to determine, if applicable, the impairment loss. The Company undertakes impairment tests considering asset groups that constitute a cash-generating unit (CGU). Intangible assets with indefinite useful lives are subject to impairment tests at least every year, and when there is an indicator of impairment.

The recoverable amount is the higher of fair value less its disposal cost and value in use. In assessing value in use, estimated future prices of different products are used to determine estimated cash flows, discount rates and perpetuity growth. Estimated future cash flows are discounted to their fair value using a pre-tax discount rate that reflects market conditions and the risks specific to each asset for which estimated future cash flows have not been adjusted.

If the recoverable amount of a CGU is estimated to be less than its carrying amount, the unit's carrying amount is reduced to its recoverable amount. Impairment losses are recognized in the consolidated statement of comprehensive income.

When an impairment loss is subsequently reversed, the CGU's carrying amount increases its estimated revised value, such that the increased carrying amount does not exceed the carrying amount that would have been determined if an impairment loss for such CGU had not been recognized in prior years.

l) Non-current assets held for sale

Non-recurrent assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. This means that the asset is available for immediate sale and is sale is highly probable. A non-current asset classified as held for sale is measured at the lower of its fair value less cost to sell and its carrying amount. Any impairment loss for write-down of the asset to fair value less costs to sell is recognized in the statement of comprehensive income.

m) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as financial liabilities at fair value through profit or loss, loans and financial debt, or derivatives designated as hedging instruments in effective hedges, as the case may be. The Company determines the classification of its financial liabilities at the time of their initial recognition. All financial liabilities are initially recognized at their fair value and, for loans and financial debt, fair value includes directly attributable transaction costs.

Financial liabilities include accounts payable to suppliers and other accounts payable, debt and derivative financial instruments.

Financial assets and liabilities are offset and the net amount is shown in the consolidated interim statement of financial position if, and only if, (i) there is currently a legally enforceable right to offset the recognized amounts; and (ii) the intention is to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Subsequent recognition of financial liabilities depends on their classification, as follows:

Financial liabilities at fair value with changes to profit or loss

Financial liabilities measured at fair value through profit or loss include financial liabilities for trading purposes, and financial liabilities measured upon initial recognition at fair value through profit or loss.

This category includes derivative financial instruments traded by the Company and that have not been designated as hedging instruments in hedging relationships.

Separate embedded derivatives are also classified for trading purposes, except they are designated as effective hedging instruments.

Profits or losses on liabilities held for trading purposes are recognized in the consolidated statement of comprehensive income.

The Company has not designated any financial liability upon initial recognition at fair value through profit or loss. The derivative financial instruments that cannot be designated as hedges are recognized at fair value with changes in profit and loss.

Financial debt and interest bearing loans

After their initial recognition, loans and borrowings that bear interest are subsequently measured at their amortized cost using the effective interest rate method. Gains and losses are recognized in profit and loss at the time they are derecognized, as well as through the effective interest rate amortization process.

The amortized cost is computed by taking into consideration any discount or premium on acquisition and the fees and costs that are integral part of the effective interest rate. Effective interest rate amortization is included as part interest expense in the consolidated statement of comprehensive income.

A financial liability is derecognized when the obligation is met, cancelled or expires.

n) Leases

Leases are classified as financial leases when under the terms of the lease, the risks and benefits of the property are substantially transferred to the lessee. All other leases are classified as operating leases.

The Company as a lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

o) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that Company settles an obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimates to settle the present obligation at the end of the period, bearing into account the risks and uncertainties inherent thereto. When a provision is assessed using estimated cash flows to settle the present obligation, its book value represents the present value of such cash flows (when the effect in the time value of money is significant).

p) Employee benefits

Short-term employee benefits

Employee remuneration liabilities are recognized in the consolidated statement of comprehensive income on services rendered according to the salaries and wages that the entity expects to pay at the date of the consolidated statement of financial position, including related contributions payable by the Company. Absences paid for vacations and vacation premiums are recognized in the consolidated statement of comprehensive income in so far as the employees render the services that allow them to enjoy such vacations.

Seniority premiums granted to employees

In accordance with Mexican labor law, the Company provides seniority premium benefits to its employees under certain circumstances. These benefits consist of a one-time payment equivalent to 12 days wages for each year of service (at the employee's most recent salary, but not to exceed twice the legal minimum wage), payable to all employees with 15 or more years of service, as well as to certain employees terminated involuntarily prior to the vesting of their seniority premium benefit.

Costs associated with these benefits are provided for based on actuarial computations using the projected unit credit method.

Termination benefits

The Company provides statutorily mandated termination benefits to its employees terminated under certain circumstances. Such benefits consist of a one-time payment of three months wages plus 20 days wages for each year of service payable upon involuntary termination without just cause.

Termination benefits are recognized when the Company decides to dismiss an employee or when such employee accepts an offer of termination benefits.

q) Statutory employee profit sharing

In conformity with Mexican labor law, the Company must distribute the equivalent of 10% of its annual taxable income as employee statutory profit sharing. This amount is recognized in the consolidated statement of comprehensive income.

r) Income taxes

Current income taxes

The tax currently payable is based on taxable profit for the year, which for companies in Mexico is comprised of the regular income tax (ISR) and the business flat tax (IETU). Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes

The recognition of deferred tax assets and liabilities reflects the tax consequences that the Company expects at the end of the period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax is recognized on temporary differences between the book and tax values of assets and liabilities, including tax loss benefits. Deferred tax assets or liabilities are not recognized if temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences related to with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Current and deferred tax for the year are recognized in profit or loss, except where they are related to items recognized in the "Other comprehensive income" line item in the stockholders' equity, in which case the current and deferred taxes are recognized in the stockholders' equity.

s) 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 over the average contract life.
- *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.

t) Earnings per share

Net earnings per share result from dividing the net earnings for the year by the weighted average of outstanding shares during the fiscal year. To determine the weighted average of the outstanding shares, the shares repurchased by the Company are excluded.

u) Segments

Management evaluates the Company's operations 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 and as a result has determined that it has only one operating segment.

(6) Critical accounting judgments and key uncertainty sources in estimates

In applying accounting policies, the Company's management use judgments, estimates and assumptions on certain amounts of assets and liabilities in the consolidated financial statements. Actual results may differ from such estimates.

Underlying estimates and assumptions are reviewed regularly.

Information about judgments made in applying accounting policies that have the most significant effects on the amounts in the consolidated financial statements is included in the following notes:

a) *Useful lives of property, systems, and equipment* - The Company reviews the estimated useful life of property, systems and equipment at the end of each annual period. The degree of uncertainty related to the estimated useful lives is related to the changes in market and the use of assets for production volumes and technological development.

b) *Impairment of non-financial assets* - When testing assets for impairment, the Company requires estimating the value in use assigned to property, systems and equipment, and cash generating units. The calculation of value in use requires the Company to determine future cash flows generated by cash generating units and an appropriate discount rate to calculate the present value thereof. The Company uses cash inflow projections using estimated market conditions, determination of future prices of products and volumes of production and sale. Similarly, for discount rate and perpetuity growth purposes, the Company uses market risk premium indicators and long-term growth expectations of markets where the Company operates.

c) *Allowance for doubtful accounts* - The Company uses estimates to determine the allowance for doubtful accounts. The factors that the Company considers to estimate doubtful accounts are mainly the customer's financial situation risk, unsecured accounts, and considerable delays in collection according to the credit limits established.

d) *Contingencies* - The Company is subject to contingent transactions or events on which it uses professional judgment in the development of estimates of occurrence probability. The factors considered in these estimates are the current legal situation as of the date of the estimate, and the external legal advisors' opinion.

e) *Decommission and remediation provision* - The Company recognizes a provision for the present value associated with the Company's decommissioning and remediation obligations to remove its telecommunication towers and capitalizes the associated cost as a component of the related asset.

f) *Deferred tax assets* - Deferred tax assets are recognized for the tax loss carry forwards to the extent management believes it is recoverable through the generation of future taxable income to which it can be applied.

g) *Financial instruments recognized at fair value* - In cases where fair value of financial assets and liabilities recorded in the consolidated financial statement do not arise from active markets, their fair values are determined using assessment techniques, including the discounted cash flows model. Where possible, the data these models are supplied with are taken from observable markets, otherwise a degree of discretionary judgment is required to determine fair values. These judgments include data such as liquidity risk, credit risk and volatility. Changes in the assumptions related to these factors may affect the amounts of fair values advised for financial instruments.

h) *Leases* - Lases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(7) Financial instruments

Categories of financial instruments		2013	2012
Financial assets			
Cash and cash equivalents	Ps	1,292,263	597,201
Restricted cash		-	10,709
Accounts receivables		2,981,732	2,406,764
Fair value through profit or loss		142,200	88,419
Financial liabilities			
Derivative financial instruments		116,658	46,532
Long-term debt		7,864,319	11,466,614
Accounts payable and accrued liabilities		2,741,308	2,404,471

a) Financial risk management objectives

The Company and its subsidiaries are exposed, through their normal business operations and transactions, primarily to market risk (including interest rate risk, price risk and currency rate risk), credit risk and liquidity risk.

The Company seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Company's policies approved by the board of directors. Compliance with policies and exposure limits is reviewed by the Company's management on a continuous basis. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

b) Market and interest rate risk

The Company undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Monetary assets and liabilities denominated in dollars as of December 31, 2013 and 2012, are as follows:

	(Thousands of US dollars)	
	2013	2012
Current assets	68,719	62,082
Current liabilities	(106,615)	(124,903)
Non-current liabilities	(574,480)	(817,765)
Foreign currency liabilities, net	(612,376)	(880,586)

The U.S. dollar exchange rates as of December 31, 2013 and 2012 were Ps. 13.07 and Ps. 13.01, respectively. As of February 28, 2014, the exchange rate was Ps. 13.29.

The Company's activities expose it to the financial risks of changes in foreign currency exchange rates and interest rates, because it borrows funds at both fixed and floating interest rates and has contracted principal and interest payments in US dollars. The risk is managed by the Company by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of cross currency interest rate swap contracts (CCS) and currency swap contracts (CS). Hedging activities are evaluated regularly to align with exchange rate and interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

The Company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

The Company enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk, including:

US$ 100 Million Syndicated loan Cross Currency Swaps (CCS)

During November 2011, the Company closed a syndicated loan of up to the equivalent of US $ 100 million. This loan is divided in two tranches, one in pesos amounting to Ps. 512,373,031 and the other in US dollar amounting to US $62,117,156. As of December 31, 2012 US$ 53.3 million (equivalent to Ps. 693 million) and Ps. 365 million have been utilized, of which approximately Ps. 246 million remains unutilized. The Company decided to hedge an increase in interest rates and exchange rate risks (devaluation of the peso versus the U.S. dollar) associated with the entire portion of principal and interest of the syndicated loan by entering into Cross Currency Swaps (CCS) with Credit Suisse and Banorte – IXE. The CCSs has been designated as a cash flow hedge for accounting purposes.

As mentioned in note 2, at January 31, 2013 the Company paid in full the remaining balance of the syndicated loan, interest and related derivative transactions.

			Fair Value Liability		
Counterparty	Notional Amount	Terms		2013	2012
Credit Suisse	Ps464 US$34.5	Pays fixed rate in pesos of 11.63% and receives LIBOR + 400	Ps	-	(40,299)
Ixe	Ps128 US$10	Pays fixed rate in pesos of 11.11% and receives LIBOR + 400	Ps	-	(6,233)

For the year ended December 31, 2012, the change in the fair value of the CCSs amounted to an unrealized loss of Ps. 41,165. This loss was recognized within other comprehensive income in the stockholders equity, net of deferred taxes of Ps. 12,350.

In February 2012, the Company entered into a CS derivative to hedge the exchange rate associated with US$100 million of the US$275 million senior notes, for the period between February and August 2015. In May of 2012, the Company canceled the derivative instruments disclosed in the previous paragraphs, recognizing Ps.16,802 as a gain within the statement of comprehensive income.

During January and March of 2012, the Company entered into a CS derivative to hedge the exchange rate associated with US$200 million of the US$300 million senior notes, for the period between March and September of 2015. In June of 2012, the Company canceled the derivative instruments disclosed in the previous paragraphs, recognizing Ps.79,206 as a loss within the statement of comprehensive income.

c) Market and interest rate sensitivity analysis

Exchange rate sensitivity analysis

The Company is exposed to currency fluctuations between the Mexican peso and the US dollar.

The following table details the Company's sensitivity analysis to a 10% increase and decrease in the peso against the US dollar. The 10% increase or decrease is the sensitivity scenario that represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in the exchange rates. A positive number below indicates an increase in profit or equity where the peso strengthens 10% against the US dollar.

If the Peso strengthens 10% against the US dollar, the profit for the year ended December 31, 2013 and equity would increase by Ps. 738,036.

If the Peso weakens 10% against the US dollar, profit for the year ended December 31, 2013 and equity would decrease by Ps. 811,840.

d) Embedded derivatives

As mentioned in note 2, on January 31, 2013, the Company completed the exchange of U.S.$142 and U.S.$335 million of unsecured notes due in 2017 and 2019, respectively, for U.S.$249 and U.S.$22 million dollars secured bond and a convertible bond, respectively, both with initial interest rate initial of 7% which will be increased to 8% in the first anniversary date and to 9% in the second anniversary date, and due in 2020, plus a cash payment of U.S.$ 83 million to participating holders.

Holders of the convertible notes may elect to convert their Convertible Dollar-Indexed Notes Into ADSs or CPOs at any time after 120th calendar day following the issue date and prior to the close of business on the fourth business day immediately preceding the maturity date for the convertible notes, or at the election of the Company such conversion may be settled in cash. The number of ADSs to be delivered in settlement conversion will be determined by the Company at the conversion rate, which shall initially be of 5.9277 ADSs per Ps.100 principal amount of convertible Dollar-indexed Notes, representing an initial conversion price of approximately Ps. 16.87 per ADS. The number of CPOs to be delivered in settlement of conversion will be determined by the conversion rate, which shall initially be of 41.4938 ADSs per Ps. 100 principal amount of convertible Dollar-indexed Notes, representing an initial conversion of approximately Ps. 2.41 per CPO.

The following summarize the accounting for the convertible notes and the embedded derivative arising from the conversion option (thousands of US $):

		2013
CONVERTIBLE NOTES - LIABILITY		
Face value	U.S.$	22,189
Options converted		(154)
		22,035
Fair value of conversion option recognized as a derivative financial instrument		(9,738)
Accreted interest		1,275
Carrying amount of convertible notes at December 31, 2013	U.S.$	13,572

		2013
CONVERTIBLE NOTES - DERIVATIVE FINANCIAL INSTRUMENT		
Fair value of conversion option at issuance date	U.S.$	9,738
Gain in change of fair value for the period		(817)
Fair value of conversion option at December 31, 2013	U.S.$	8,921

e) Other price risks (equity price risk)

During July, August and September 2009, the Company acquired call options denominated “Zero Strike Calls” that have a notional of 26,096,700 CPOs of Axtel’s shares. During the months of June and July of 2010, the Company acquired additional Zero Strike Calls for 4,288,000 CPOs of Axtel, on the same conditions, holding 30,384,700 CPOs as of January 1, 2011. The underlying of these instruments is the market value of the Axtel’s CPOs. The premium paid was equivalent to the market value of the notional plus transaction costs. The strike price established was 0.000001 pesos per option. This instrument is redeemable only in cash and can be redeemed by the Company at any time (considered to be American options), for a six month period and are extendable. The terms and fair value of the Zero Strike Calls is included in the following table:

			Fair value Asset (Liability)	
Counterparty	Notional amount	Terms	2013	2012
Bank of America Merrill Lynch	30,384,700 CPOs	Receives in cash the market value of the notional amount	Ps 142,200	Ps 88,419

For the year ended December 31, 2013 and 2012 the change in the fair value of the Zero Strike Calls resulted in an unrealized gain (loss) of Ps.53,781 and (Ps.46,793), respectively, recognized in the financial cost, net.

f) Equity price risk sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to the equity price risk associated with the market value of the Axtel's CPOs at the end of the reporting period. The 10% increase or decrease is the sensitivity scenario that represents management's assessment of the reasonably possible change in the Axtel's share price.

If the Company's share price had been 10% higher:

- profit and equity for the year ended December 31, 2013 and 2012 would increase by Ps. 14,220 and Ps. 8,842, respectively.

If the Company's share price had been 10% lower:

- profit and equity for the year ended December 31, 2013 and 2012 would decrease by Ps.12,927 and Ps. 8,038, respectively.

g) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of its counterparties are continuously monitored. Credit exposure is controlled by counterparty limits that are reviewed and approved by the Company, annually.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas throughout Mexico. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

Apart from companies A, B and C, the largest customers of the Company, the Company does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk related to Company A, B and C should not exceed 20% of gross monetary assets at any time during the year. Concentration of credit risk to any other counterparty should not exceed 5% of gross monetary assets at any time during the year.

Company A represented 10%, and 15% of the Company's accounts receivable as of December 31, 2013 and 2012, respectively. Additionally, revenues associated with Company A for the year ended December 31, 2013 and 2012 were 0% and 3%, respectively.

Company B represented 9%, and 0% of the Company's accounts receivable as of December 31, 2013 and 2012, respectively. Additionally, revenues associated with Company B for the year ended December 31, 2013 and 2012 were 3% and 0%, respectively.

Company C represented 8%, and 0% of the Company's accounts receivable as of December 31, 2013 and 2012, respectively. Additionally, revenues associated with Company C for the year ended December 31, 2013 and 2012 were 2% and 0%, respectively.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Company does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

h) Liquidity risk management

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Company's reputation.

Ultimate responsibility for liquidity risk management rests with the Company's board of directors, which has established an appropriate liquidity risk management framework for the management of the Company's short-, medium- and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring actual and forecasted cash flows.

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities (debt) with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rates at the end of the reporting period. The contractual maturity is based on the earliest date on which the Company may be required to pay.

		Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years
DECEMBER 31, 2013							
Variable interest rate instruments	Ps	29,050	13,571	11,755	4,940	-	-
Fixed interest rate instruments		713,615	752,371	761,727	1,341,575	611,927	7,634,415
Capacity lease		179,171	-	-	-	-	-
	Ps	921,836	765,942	773,482	1,346,515	611,927	7,634,415

		Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years
DECEMBER 31, 2012							
Variable interest rate instruments	Ps	181,921	408,763	373,370	6,466	15	-
Fixed interest rate instruments		949,927	890,272	873,577	849,231	4,424,371	7,522,440
Capacity lease		179,171	179,171	-	-	-	-
	Ps	1,311,019	1,478,206	1,246,947	855,697	4,424,386	7,522,440

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

i) Fair value of financial instruments

Except as detailed in the following table, the Company's management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values:

	December 31, 2013		December 31, 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL LIABILITIES				
Financial liabilities held at amortized cost:				
U.S. $275 million Senior Unsecured Notes	659,029	598,069	3,577,778	1,842,555
U.S. $490 million Senior Unsecured Notes	1,330,272	1,063,819	6,374,949	3,378,723
U.S. $394.6 million Senior Secured Notes	5,160,680	4,889,744	-	-
U.S. $22.2 million Senior Secured Convertible Notes	177,481	177,481	-	-
Syndicated loan	-	-	1,057,925	964,663
Other long-term financing	407,965	400,139	251,179	225,166
Capacity lease	168,554	172,397	318,984	327,442

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments or option pricing models as best applicable. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and include other adjustments to arrive at fair value as applicable (i.e. for counterparty credit risk).
- The fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

j) Fair value measurements recognized in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

	December 31, 2013			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
FINANCIAL ASSETS				
Zero Strike Calls	142,200	-	-	142,200
FINANCIAL LIABILITIES				
Derivative financial liabilities	-	116,658	-	116,658

	December 31, 2012			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
FINANCIAL ASSETS				
Zero Strike Calls	88,419	-	-	88,419
FINANCIAL LIABILITIES				
Derivative financial liabilities	-	46,532	-	46,532

(8) Accounts receivable

Accounts receivable consist of the following:

		2013	2012
Trade accounts receivable	Ps	5,388,862	4,614,301
Less allowance for doubtful accounts		2,407,130	2,207,537
Trade accounts receivable, net	Ps	2,981,732	2,406,764

Given their short-term nature the carrying value of trade accounts receivable approximates its fair value as of December 31, 2013 and 2012.

Movement in the allowance for doubtful accounts.		2013	2012
Opening balance	Ps	2,207,537	2,007,078
Allowance for the year		199,524	201,473
Effect of exchange rate		69	(1,014)
Balances at period end	Ps	2,407,130	2,207,537

In determining the recoverability of trade receivables, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated.

Aging of impaired trade receivables:		2013	2012
30 - 60 days	Ps	-	35,418
60 - 90 days		22,130	31,282
90 - 120 days		26,054	42,719
120 + days		2,358,946	2,098,118
Total	Ps	2,407,130	2,207,537

Aging of past due but not impaired		2013	2012
Current	Ps	1,206,468	1,112,877
1 - 30 days		139,769	203,513
30 - 60 days		201,352	65,596
60 - 90 days		22,322	31,980
90 + days		518,901	419,299
Total	Ps	2,142,812	1,833,265

(9) Inventories

Inventories consist of the following:

		2013	2012
Routers	Ps	10,322	17,209
Installation material		19,043	19,836
Network spare parts		10,835	13,622
Tools		8,890	10,864
Telephones and call identification devices		6,417	13,734
Other		50,806	30,206
Total inventories	Ps	106,313	105,471

(10) Property, systems and equipment

Property, systems and equipment are as follows:

		Land and Building	Computer and electronic equipment	Transportation equipment	Furniture and Fixtures	Network equipment	Leasehold improvements	Construction in progress	TOTAL
Balance as of January 1, 2012	Ps	430,990	3,040,278	378,071	215,919	27,424,110	417,957	2,536,711	34,444,036
Additions		-	247	2,814	2	572,753	-	1,481,933	2,057,749
Transfer of completed projects in progress		-	235,402	25,095	5,178	2,411,698	7,190	(2,684,563)	-
Transfer to assets held for sale		-	-	-	-	(817,077)	-	-	(817,077)
Disposals		-	(26)	(10,569)	-	(21,307)	-	-	(31,902)
Balance as of December 31, 2012		430,990	3,275,901	395,411	221,099	29,570,177	425,147	1,334,081	35,652,806
Additions		-	579	24,301	143	682,033	-	1,659,608	2,366,664
Transfer of completed projects in progress		-	105,617	988	19,903	2,004,020	4,465	(2,134,993)	-
Reclassification of transfer to assets held for sale		-	-	-	-	240,451	-	-	240,451
Disposals		-	-	(32,987)	(76)	(78,787)	-	-	(111,850)
Balance as of December 31, 2013	Ps	430,990	3,382,097	387,713	241,069	32,417,894	429,612	858,696	38,148,071

DEPRECIATION AND IMPAIRMENT		Land and Building	Computer and electronic equipment	Transportation equipment	Furniture and Fixtures	Network equipment	Leasehold improvements	Construction in progress	TOTAL
Balance as of January 1, 2012	Ps	107,512	1,129,025	221,955	149,454	17,153,898	259,169	-	19,021,013
Depreciation of the year		14,286	101,517	76,790	14,063	2,776,095	38,459	-	3,021,210
Assets held for sale		-	-	-	-	(356,615)	-	-	(356,615)
Disposals		-	-	(9,588)	-	(21,208)	-	-	(30,796)
Balance as of December 31, 2012		121,798	1,230,542	289,157	163,517	19,552,170	297,628	-	21,654,812
Depreciation of the year		14,286	128,810	64,089	14,752	2,914,961	30,356	-	3,167,254
Disposals		-	-	(31,752)	-	(14,385)	-	-	(46,137)
Reclassification of transfer to assets held for sale		-	-	-	-	184,955	-	-	184,955
Balance as of December 31, 2013	Ps	136,084	1,359,352	321,494	178,269	22,637,701	327,984	-	24,960,884
Property, systems and equipment, net at December 31, 2012	Ps	309,192	2,045,359	106,254	57,582	10,018,007	127,519	1,334,081	13,997,994
Property, systems and equipment, net at December 31, 2013	Ps	294,906	2,022,745	66,219	62,800	9,780,193	101,628	858,696	13,187,187

Construction in progress mainly includes network equipment, and capitalization period is approximately six months.

During the year ended December 31, 2013 and 2012 the Company capitalized Ps. 34,461 and Ps. 61,399, respectively of borrowing costs in relation to Ps. 492,996 and Ps. 716,915 in qualifying assets. Amounts were capitalized based on a capitalization rate of 9.28% and 8.57%, respectively.

For the year ended December 31, 2013 and 2012 interest expenses are comprised as follows:

		2013	2012
Interest expense	Ps	(916,915)	(1,118,912)
Amount capitalized		34,461	61,399
Net amount in consolidated statements of comprehensive income	Ps	(882,454)	(1,057,513)

As of December 31, 2013, certain financial leases amounting to approximately Ps. 23 million were guaranteed with the equipment acquired with those leases.

The depreciation expense for the year ended December 31, 2013 and 2012, amounts to Ps. 3,167,254 and Ps. 3,021,210, respectively.

Non-current assets held for sale

At December 31, 2012, some of the communication towers of the Company were presented as assets held for sale due to a formal plan to sell these assets. Assets held for sale amounted to Ps. 460,462 less liabilities (decommissioning and remediation obligations) of Ps. 281,808.

On January 31, 2013, the Company completed the sale of 883 sites to MATC Digital Telecommunications, S. de R.L. de C.V. ("MATC"), a subsidiary of American Tower Corporation, in the amount of U.S.$ 249 million. This transaction resulted in a gain of Ps. 3,111,948 which is presented as operating income in the accompanying condensed consolidated statement of comprehensive income. Additionally, the Company agreed to lease certain spaces at these locations in terms ranging from 6 to 15 years, depending on the type of technology installed at each site, for a net yearly cost of approximately U.S.$ 20 million.

(11) Intangible assets

Intangible assets with defined useful lives consist of the following:

		Telephone concession rights AXTEL	Telephone concession rights Avantel	Telmex / Telnor infrastructure costs	World Trade Center concession rights	Rights of use	Others	TOTAL
Balance as of January 1, 2012	Ps	571,520	110,193	58,982	21,045	30,030	73,169	864,939
Additions		-	-	-	-	-	14,161	14,161
Balances as of December 31, 2012		571,520	110,193	58,982	21,045	30,030	87,330	879,100
Disposals		-	-	-	-	-	(14,161)	(14,161)
Balances as of December 31, 2013	Ps	571,520	110,193	58,982	21,045	30,030	73,169	864,939

DEPRECIATION AND IMPAIRMENT		Telephone concession rights AXTEL	Telephone concession rights Avantel	Telmex / Telnor infrastructure costs	World Trade Center concession rights	Rights of use	Others	TOTAL
Balance as of January 1, 2012	Ps	366,624	50,088	30,418	9,338	14,451	68,525	539,444
Amortization		30,307	10,018	4,080	1,672	2,886	2,071	51,034
Balances as of December 31, 2012	Ps	396,931	60,106	34,498	11,010	17,337	70,596	590,478
Amortization		30,307	10,018	4,080	1,672	2,886	1,706	50,669
Balances as of December 31, 2013	Ps	427,238	70,124	38,578	12,682	20,223	72,302	641,147
Intangible assets, net at December 31, 2012	Ps	174,589	50,087	24,484	10,035	12,693	16,734	288,622
Intangible assets, net at December 31, 2013	Ps	144,282	40,069	20,404	8,363	9,807	867	223,792

Concessions rights of the Company

The main concessions of the Company are as follows:

- Concession to offer local and long distance telephony services, for a period of thirty years. To maintain this concession the Company needs to comply with certain conditions. It can be renewed for another period of thirty years;
- On September 15, 1995 Avantel obtained a concession to offer local and long distance telephony services, for a period of thirty years. To maintain this concession the Company needs to comply with certain conditions. It can be renewed for another period of thirty years;
- Concessions of different frequencies of radio spectrum for 20 years and renewable for additional periods of 20 years, as long as Axtel complies with all of its obligations, and with all conditions imposed by the law and with any other condition that Secretaria de Comunicaciones y Transporte (SCT) imposes.

Concessions allow the Company to provide basic local telephone service, domestic long distance telephony, purchase or lease network capacity for the generation, transmission or reception of data, signals, writings, images, voice, sounds and other information of any kind, the purchase and leasing network capacity from other countries, including digital circuits income, value added services, operator services, paging and messaging services, data services, video, audio and video conferencing, except television networks, music or continuous service digital audio services, and credit or debit phone cards.

In November 2006, SCT granted the Company, as part of the concession of Axtel, a new permission to provide SMS (short messaging system) to its customers.

In September 15, 2009, SCT granted the Company a concession to install, operate and exploit a public telecommunications network to provide satellite television and audio services.

Intangible assets arising from the acquisition of Avantel

Derived from the acquisition of Avantel in 2006, the Company recorded certain intangible assets such as: trade name “Avantel”, customer relationships and telephone concession rights, whose value were determined by using an independent external expert appraiser at the acquisition date and accounted for in accordance to previous GAAP. The trade name and customer relationships are amortized over a three-year period; meanwhile the concession is amortized over the remaining term of the concession on a straight-line basis. At December 31, 2013 the values of the trade name “Avantel” and of customer relationships were totally amortized.

(12) Investments in associates and joint ventures and other equity investments

As of December 31, 2013, the investment in shares of associated company through Avantel, S. de R.L. de C.V. is represented by a non-controlling 50% interest in the equity shares of Conectividad Inalámbrica 7GHZ, S. de R.L., amounting to Ps. 11,640. The operation of this company consists of providing radio communication services in Mexico under the concession granted by the SCT. Such concession places certain performance conditions and commitments to this company, such as (i) filing annual reports with the SCT, including identifying main stockholders of the Company, (ii) reporting any increase in common stock, (iii) providing continuous services with certain technical specifications, (iv) to present a code of marketing strategies, (v) to register rates of service, (vi) to provide a bond and (vii) fulfilling the program of investments presented when the Company requested the concession.

During 2011 the Company recognized an impairment regarding its investments in Opanga Networks and Eden Rock Communications for Ps. 17,798 and Ps. 16,735, respectively.

	Ownership		Investment amount	
	2013	2012	2013	2012
Conectividad Inalámbrica 7GHZ, S. de R.L.	50%	50%	11,640	9,647
Opanga Networks	19.8%	19.8%	17,798	17,798
Eden Rock Communications	10.5%	10.5%	16,735	16,735
			46,173	44,180
Less impairment			(34,533)	(34,533)
Total investments			11,640	9,647

CONECTIVIDAD INALÁMBRICA 7GHZ, S. DE R.L		2013	2012
Total assets	Ps	23,279	20,791
Total liabilities		-	1,497
Net assets		23,279	19,294
Share of net assets of associates		11,640	9,647
Net income (loss) for the period		3,984	(40)
Share of loss of associates accounting by the equity method	Ps	1,992	(20)

(13) Other assets

Other assets consist of the following:

		2013	2012
Long-term prepaid expenses	Ps	208,307	170,633
Account receivable Telmex (see note 24(b))		-	47,395
Guarantee deposits		45,634	47,631
Advances to suppliers		10,314	10,419
Other		11,086	18,519
Other assets		275,341	294,597
Current portion of other assets		130,492	141,439
Other long-term assets	Ps	144,849	153,158

(14) Long-term debt

Long-term debt as of December 31, 2013 and 2012 consist of the following:

		2013	2012
U.S. $275 in aggregate principal amount of 7 5/8 % Senior Unsecured Notes due in 2017. Interest is payable semiannually on February 1 and August 1 of each year. During January and 2013, the Company completed the exchange of U.S.$ 224.6 and U.S.$ 167.4 million of unsecured notes maturing in 2017 and 2019, respectively, for U.S.$ 358.6 and U.S.$ 22 million dollars on an insured bond and a convertible bond.	Ps	659,029	3,577,778
U.S.$ 490 in aggregate principal amount of 9% Senior Unsecured Notes due in 2019. Interest is payable semiannually on March and September of each year. In January 2013, the Company completed the exchange of U.S.$ 224.6 and U.S.$167.4 million of unsecured notes maturing in 2017 and 2019, respectively, for U.S.$ 358.6 and U.S.$ 22 million dollars on an insured bond and a convertible bond.		1,330,272	6,374,949
Senior Secured Notes in a principal amount of U.S.$394.6 million dollars with initial interest of 7% will be increased to 9% and maturing in 2020. Interest is payable semi-annually in February and August of each year.		5,160,680	-
Senior Secured Convertible Notes U.S. dollar-indexed principal amount of U.S.$22.2 million dollars with initial interest of 7% will be increased to 9% and maturing in 2020. Interest is payable semi-annually in February and August of each year.		177,481	-
Discount on note caused by Senior Secured Notes payable in the amount of U.S. $ 36 million at an initial interest rate of 7% will increase to 9% due 2020.		(28,994)	-
Premium on Senior Unsecured Notes with an aggregate principal of U.S.$490 million with an interest rate of 9%, due in 2019.		7,444	42,096
Syndicated loan totaling U.S. $100 million with variable interest rate from LIBOR + 3.0% to LIBOR + 4.5% and from TIIE + 3.0% to TIIE + 4.5% according to the leverage of the Company. Interest payments are made quarterly. As of December 31, 2012 U.S.$53.3 million and Ps. 364.7 million have been utilized.		-	1,057,925
Capacity lease agreement with Teléfonos de Mexico, S.A.B. de C.V. of approximately Ps. 800,000 payable monthly and expiring in 2011. Renewed in 2011 of approximately Ps. 484,000 payable monthly.		168,554	318,984
Other long-term financing with several credit institutions with interest rates fluctuating between 3.60% and 7.20% for those denominated in dollars and TIIE (Mexican average interbank rate) plus 1.5 and 3 percentage points for those denominated in pesos.		407,965	251,179
Debt issuance and deferred financing costs		(18,112)	156,297
Total long-term debt		7,864,319	11,466,614
Less current maturities		308,945	411,969
Long-term debt, excluding current maturities	Ps	7,555,374	11,054,645

Annual installments of long-term debt are as follows:

YEAR		AMOUNT
2015	Ps	112,179
2016		104,655
2017		707,988
2018		1,781
2019 and thereafter		6,628,771
	Ps	7,555,374

Note issuance and deferred financing costs directly attributable to the issuance of the Company's borrowings are amortized based on the effective interest rate over the term of the related borrowing.

For the year ended December 31, 2013 and 2012, the interest expense was Ps. 916,915 and Ps. 1,118,912 respectively. (see note 10).

During December 31, 2013, the Company completed the exchange of U.S.$ 82.5 million and U.S.$ 32.8 million of unsecured notes due in 2017 and 2019, respectively, for U.S.$ 110 million of secured bonds due in 2020 with the same conditions and interest rates described in the January 2013 exchange mentioned in the following paragraphs, this transaction resulted in a gain of Ps. 30,658 which is presented in the accompanying consolidated statements of comprehensive income. In addition, on December 13 and 26, 2013, the Company closed an offering of additional 2020 Notes for U.S$ 26 million and U.S$ 10 million, additional bonds were issued at a price of 93.75% of their principal value.

At January 31, 2013, the Company completed the exchange of U.S.$ 142 and U.S.$ 355 million of unsecured notes due in 2017 and 2019, respectively, for U.S.$ 249 and U.S.$ 22 million dollars secured bond and a convertible bond, respectively, both with initial interest rate of 7% which will be increase to 8% in the first anniversary date and to 9% in the second anniversary date, and due in 2020, plus a cash payment of U.S.$ 83 million to participating holders. Holders of the convertible notes may elect to convert their Convertible Dollar-Indexed Notes Into ADSs of CPOs at any time after 120th calendar day following the issue date and prior to the close of business on the fourth business day immediately preceding the maturity date for the convertible notes, or at the election of the Company such conversion may be settled in cash. This transaction resulted in a gain of Ps.1,538,325 which is presented in other income in the accompanying condensed consolidated statements of comprehensive income.

Additionally, the Company performed the full payment of the remaining balance of the syndicated loan, interest and related derivative transactions, amounting approximately U.S.$ 88 million.

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 Financiero Banorte; Credit Suisse AG, Cayman Islands Branch; ING Bank NV, Dublin Branch and Standard Bank Plc. The total amount is U.S. $ 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, 2012 US$ 53.3 million and Ps. 365 million have been funded, while the revolving facility has not been disbursed. The operation contemplates a variable rate 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.

Certain debt agreements establish affirmative and negative covenants, the most significant of which refer to limitations on dividend payments and the compliance with certain financial ratios. As of December 31, 2013 and February 28, 2014, the Company was in compliance with all covenants contained in its debt agreements.

(15) Other current liabilities

As of December 31, 2013 and 2012, other accounts payable consist of the following:

		2013	2012
Guarantee deposit	Ps	10,314	10,261
Payroll and other liabilities [1]		90,159	96,441
	Ps	100,473	106,702

[1] *Payroll and other liabilities mainly include christmas bonus, vacation premium and other benefits.*

(16) Employee benefits

The cost, obligations and other elements of the Company's seniority premium liability for reasons other than restructuring have been determined based on computations prepared by independent actuaries at, December 31, 2013 and 2012. The components of the net periodic cost for the years ended December 31, 2013 and 2012 are as follows:

		2013	2012
Net period cost:			
Current service cost	Ps	2,906	3,527
Interest cost		1,179	1,403
Actuarial gain		-	(7,593)
Amortization of net actuarial loss		-	(453)
Net period cost (benefit)	Ps	4,085	(3,116)

The actuarial present value of benefit obligations of the plans at December 31, 2013 and 2012 are follows:

		2013	2012
Initial balance	Ps	19,452	21,935
Benefits paid		(2,207)	(343)
Current service cost and interest cost		4,085	4,930
Actuarial gain		-	(7,070)
Net projected liability	Ps	21,330	19,452

The amount included in the consolidated statement of financial position arising from the entity's obligation in respect of its seniority premium benefits is as follows:

		2013	2012
Total present value of obligations	Ps	20,484	18,131
Amendments to plan		-	267
Actuarial (gains) losses		846	1,054
Liability recognized for defined benefit obligation	Ps	21,330	19,452

The most significant assumptions used in the determination of the net periodic cost are the following:

	2013	2012
Discount rate used to reflect the present value of obligations	6.5%	6.5%
Rate of increase in the minimum wage	3.5%	3.5%
Real rate of increase in future salary levels	4%	4%
Average seniority of employees	7.2 years	7.1 years

(17) Provisions

The Company's provisions as of December 31, 2013 and 2012 are as follows:

		2013	2012
Decommissioning and remediation obligations	Ps	-	281,808
Total	Ps	-	281,808
Current portion of provisions	Ps	-	281,808

Changes in the balance of provisions recorded for the following periods are as follows:

DECOMMISSIONING AND REMEDIATION OBLIGATIONS		2013	2012
Initial balance	Ps	281,808	253,129
Cancellation		(281,808)	-
Unwinding of discount and effect of changes in the discount rate		-	28,679
Ending balance	Ps	-	281,808

The Company conducted an analysis of the obligation associated with the retirement of property, systems and equipment, mainly identifying sites built on leased land on which it has a legal obligation or assumed the retirement thereof.

As mentioned in note 2, the Company completed the sale of 883 sites to MATC Digital Telecommunications, S. de R.L. de C.V. ("MATC"), a subsidiary of American Tower Corporation, in the amount of U.S.$ 249 million, due the above the Company canceled the provision of the obligation associated whit the retirement of the sites.

RESTRUCTURING PROVISION		2013	2012
Initial balance	Ps	-	59,855
Additional provisions recognized		-	-
Payments		-	(59,855)
Ending balance	Ps	-	-

In order to implement its strategic plans, the Company has restructured certain of its operations. The cost of restructuring, which consists of compensation and employee severance payments, is included in the statement of comprehensive income as component of operating income.

(18) Transactions and balances with related parties

The transactions with related parties during the years ended December 31, 2013 and 2012 are as follows:

		2013	2012
Banamex			
Telecommunication service revenues	Ps	584,759	514,287
Commission and administrative services		8,253	14,176
Interest expense		21,202	28,795
Other related parties:			
Rent expense	Ps	37,281	39,914
Installation service expense		46,177	32,027
Other		5,211	5,950

The balances with related parties as of December 31, 2013 and 2012, included in accounts payable are as follows:

ACCOUNTS PAYABLE SHORT-TERM:		2013	2012
GEN Industrial, S.A. de C.V. (2)	Ps	58	73
Instalaciones y Desconexiones Especializadas, S.A. de C.V. (2)		-	991
Total	Ps	58	1,064

The balances with related parties as of December 31, 2013 and 2012, included in deferred revenues are as follows:

		2013	2012
DEFERRED REVENUES SHORT-TERM:			
Banco Nacional de México, S.A. (1)	Ps	457,478	434,693
DEFERRED REVENUES LONG-TERM:			
Banco Nacional de México, S.A. (1)	Ps	33,900	33,900

(1) Derived from transactions related to master services agreement signed between the Company and Banamex in November 2006. Under this contract, the Company provides telecommunications services (including, local, long distance and other services) to Banamex and its affiliates located in Mexico.
(2) Mainly rents and other administrative services.

The benefits and aggregate compensation paid to executive officers and senior management of the Company during the year ended December 31, 2013 and 2012 were as follows:

		2013	2012
Short-term employee benefits paid	Ps	94,584	108,185

(19) Income tax (IT) and Flat Rate Tax (IETU)

On December 11, 2013, a decree was published in the Official Gazette whereby several tax provisions were amended, supplemented, and repealed. This decree became effective as of January 1, 2014. Upon enactment of a new IT Law, the IETU Law and the IT Law in effect as of December 31, 2013 were repealed

The income tax (expense) benefit is as follows:

		2013	2012
Current income tax	Ps	(50,817)	(53,022)
Deferred income tax	Ps	(967,321)	226,164
Income tax (expense) benefit	Ps	(1,018,138)	173,142

Given that the IETU Law was repealed, as of December 31, 2013, the Company wrote off its deferred IETU assets generated by subsidiaries Avantel, S. de R.L., Avantel, S.A. Asociación en Participación, Servicios Axtel, S.A. de C.V. e Instalaciones y Contrataciones, S.A. de C.V. recording a charge to operations in 2013 in the amount of Ps 190,720. Furthermore, the Company determined its deferred income taxes (IT) as of December 31, 2013, recognizing deferred income tax assets in the amount of Ps 38,159, recording a credit to operations in fiscal year 2013.

According to the IT Law in effect as of December 31, 2013, the IT rate for fiscal years 2013 and 2012 was 30%; for 2014, the rate would be 29%, and for 2015 and thereafter, 28%. The new IT law imposes an IT rate of 30% for 2014 and thereafter.

The IETU rate for 2013 and 2012 was 17.5%.

Income tax (expense) benefit attributable to income (loss) from continuing operations before income taxes, differed from the amounts computed by applying the Mexican statutory rates of 30% IT to income (loss) before income taxes, as a result of the items shown below.

	2013	2012
Statutory income tax rate	30%	30%
Difference between book and tax inflationary effects	3%	9%
Change in valuation allowance	(2%)	(4%)
Non-deductible expenses	(2%)	(8%)
Changes in tax rates	(1%)	4%
IETU effect	-	(11%)
Changes in laws	(7%)	-
Recognition of initial deferred IT on subsidiaries	8%	-
Recognition of the tax effect of tax losses not previously recognized	1%	-
Effective tax rate	30%	20%

The deferred income taxes are as follows:

		2013	2012
Income tax	Ps	1,101,937	1,890,998
Business flat tax		-	190,720
Deferred income taxes	Ps	1,101,937	2,081,718

The main differences that gave rise to the deferred income tax assets as of December 31, 2013 and 2012 are presented below:

		2013	2012
DEFERRED TAX ASSETS:			
Net operating loss carry forwards	Ps	824,229	599,839
Allowance for doubtful accounts		522,188	438,602
Fair value of derivative financial instruments		-	26,073
Accrued liabilities and other provisions		547,230	246,221
Premium on bond issuance		2,233	12,629
Property, systems and equipment		-	661,615
Total deferred tax assets		1,895,880	1,984,979
DEFERRED TAX LIABILITIES:			
Telephone concession rights	Ps	52,698	55,628
Property, systems and equipment		69,526	-
Long-term debt		549,342	-
Fair value of derivative financial instruments		41,898	-
Intangible and other assets		80,479	38,353
Total deferred tax liabilities		793,943	93,981
Deferred tax assets, net	Ps	1,101,937	1,890,998

The subsidiaries Avantel, S. de R.L., Avantel, S.A. Asociación en Participación, Servicios Axtel, S.A. de C.V. and Instalaciones y Contrataciones, S.A. de C.V., were IETU payers. The main differences that generated the deferred IETU asset as of December 31, 2012 in these subsidiaries are detailed below:

		2012
DEFERRED TAX ASSETS:		
Accounts payable	Ps	345,534
Deferred revenues		87,308
Provisions		30,278
Other		17,917
Total deferred tax assets		481,037
DEFERRED TAX LIABILITY:		
Accounts receivable	Ps	271,628
Telephone concession rights		9,854
Property, systems and equipment		7,219
Other		1,616
Total deferred tax liability		290,317
Net deferred tax assets		190,720

The roll forward for the net deferred tax asset as of December 31, 2013 and 2012 are presented below:

		2012	Effects on profit and loss	Effects on stockholders' equity	2013
Net operating loss carry forwards	Ps	599,839	224,390	-	824,229
Allowance for doubtful accounts		438,602	83,586	-	522,188
Fair value of derivative financial instruments		26,073	(13,613)	(12,460)	-
Accrued liabilities and other provisions		246,221	301,009	-	547,230
Premium on bond issuance		12,629	(10,396)	-	2,233
Deferred IETU		190,720	(190,720)	-	-
Property, systems and equipment		661,615	(731,141)	-	(69,526)
Telephone concession rights		(55,628)	2,930	-	(52,698)
Long-term debt		-	(549,342)	-	(549,342)
Fair value of derivative financial instruments		-	(41,898)	-	(41,898)
Intangible and other assets		(38,353)	(42,126)	-	(80,479)
	Ps	2,081,718	(967,321)	(12,460)	1,101,937

		2011	Effects on profit and loss	Effects on stockholders' equity	2012
Net operating loss carry forwards	Ps	700,066	(100,227)	-	599,839
Allowance for doubtful accounts		345,348	93,254	-	438,602
Fair value of derivative financial instruments		(37,459)	61,370	2,162	26,073
Accrued liabilities and other provisions		166,688	79,533	-	246,221
Premium on bond issuance		14,500	(1,871)	-	12,629
Deferred IETU		122,060	68,660	-	190,720
Property, systems and equipment		637,900	23,715	-	661,615
Telephone concession rights		(63,215)	7,587	-	(55,628)
Intangible and other assets		(32,496)	(5,857)	-	(38,353)
	Ps	1,853,392	226,164	2,162	2,081,718

As of December 31, 2013, the tax loss carry forwards and the refundable tax on assets expire as follows:

YEAR		Tax loss carry forwards	Tax on assets
2014	Ps	30,284	9,326
2015		-	7,579
2016		25,168	10,426
2017		-	36,347
2018		383,254	-
2020		182,114	-
2021		1,848,781	-
2022		561,618	-
2023		554,996	-
	Ps	3,586,215	63,678

At December 31, 2013, the valuation allowance of deferred tax assets is Ps 515,264, of which Ps 251,635 relate to tax loss carry forwards, Ps 199,951 to estimating doubtful accounts and Ps 63,678 to tax recoverable asset.

(20) Stockholders' equity

The main characteristics of stockholders' equity are described below:

a) Capital stock structure

As of December 31, 2013, the common stock of the Company is Ps 6,627,890. The Company has 8,776,192,202 shares issued and outstanding. Company's shares are divided in two Series: Series A and B; both Series have two type of classes, Class "I" and Class "II", with no par value. Of the total shares, 97,750,656 are series A and 8,678,441,546 series B. At December 31, 2013 the Company has issued only Class "I".

		Shares		Amount	
		2013	2012	2013	2012
AUTHORIZED AND ISSUED CAPITAL:					
Series A	Ps	97,750,656	96,636,627	73,396	73,012
Series B		8,678,441,546	8,672,716,596	6,554,494	6,552,524

In connection with the issuance of the convertible bond into shares held on January 31, 2013, and in accordance with the resolutions adopted by the Extraordinary General Meeting of Shareholders on January 25, 2013, the Company issued 972,814,143 Series B shares Class "I" that will be kept in the treasury of the Company, to be subsequently subscribed by the conversion of convertible bonds. During the last quarter of 2013 the conversion option was exercised for a total of 5,724,950 Series B shares representing an increase of Ps 1,970 in the capital stock of the Company.

During April 2013 a contribution of capital stock for Ps 384, representing 1,114,029 Series "A", was received.

During July 2008 the Company began a program to repurchase own shares which was approved at an ordinary shareholder meeting held on April 23, 2008 for up to Ps 440 million. As of December 31, 2008 the Company had repurchased 26,096,700 CPO's (182,676,900 shares). During July, August and September 2009, the CPOs purchased through the repurchase program was resold in the market.

The acquisition of Avantel also included a Series B Shares Subscription Agreement ("Subscription Agreement") with Tel Holding, an indirect subsidiary of Citigroup, Inc., for an amount equivalent to up to 10% of Axtel's common stock. For this to come into effect, the Company obtained stockholder approval (i) to increase capital by issuing Series B Shares in a number that was sufficient for Tel Holding to issue and pay Series B Shares (in the form of CPOs) representing up to a 10% equity share in Axtel; and (ii) for the subscription and payment of the Series B Shares that represented the shares issued by Tel Holding and any shares issued by stockholders that elected to issue and pay for additional Series B Shares in exercise of their preferential right granted by the Mexican General Corporation Law.

On December 22, 2006 pursuant to the Subscription Agreement, the Company received notice from Tel Holding confirming that it acquired 533,976,744 Series B Shares (represented by 76,282,392 CPOs) from the Mexican Stock Exchange (Bolsa Mexicana de Valores, or "BMV") and confirming its intention to issue and pay for 246,453,963 new Series B Shares (represented by 35,207,709 CPOs). The new Series B Shares were subscribed and paid for by Tel Holding through the CPOs Trust on January 4, 2007.

b) Stockholders' equity restrictions

Stockholders' contributions, restated for inflation as provided in the tax law, totaling Ps 8,989,419 may be refunded to stockholders tax-free.

No dividends may be paid while the Company has a deficit. Additionally, certain of the Company's debt agreements mentioned in note 14 establish limitations on dividend payments.

c) Comprehensive income (loss) income

The balance of other comprehensive income items and its activity as of December 31, 2013 and 2012, is as follows:

		2013	2012
Net income (loss)	Ps	2,407,679	(708,869)
Valuation of the effective portion of derivative financial instruments		41,811	(7,205)
Effect of income tax		(12,460)	2,162
Valuation of the effective portion of derivative financial instruments, net		29,351	(5,043)
Net comprehensive income (loss)		2,437,030	(713,912)

(21) Telephone services and related revenues

Revenues consist of the following:

		2013	2012
Local calling services	Ps	3,208,170	3,619,022
Long distance services		1,139,591	1,236,414
Internet and video		1,043,393	798,656
Data and network		1,860,070	1,997,886
Integrated services and equipment sales		1,884,132	1,493,812
International traffic		763,991	655,328
Other services		387,147	388,614
	Ps	10,286,494	10,819,732

(22) Other expenses, net

Other expenses consists of the following:

		2013	2012
Restructuring cost	Ps	(30,552)	(190,984)
Other, net		(48,292)	(9,003)
	Ps	(78,844)	(199,987)

(23) Commitments and contingencies

As of December 31, 2013, the Company has the following commitments and contingencies:

(a) Interconnection Disagreements – Mobile Carriers – Years 2005 to 2007. On the second quarter of the year 2007, and the first quarter of the year 2008, the Federal Telecommunications Commission (Comisión Federal de Telecomunicaciones) ("Cofetel") ruled interconnection disagreements between the Company and the following mobile carriers: Radiomovil Dipsa, 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").

With respect to Telcel, the Supreme Court of Justice (Suprema Corte de Justicia de la Nación) ("SCJN") decided to deny the amparo trials filed by the Company and Telcel, and therefore confirming the ruling issued in the past by Cofetel by means of which it determined the interconnection tariffs for the years 2005 to 2007. The result of this amparo trial, do not creates an economic contingency for the Company due to the fact that during the years 2005, 2006 and 2007, the Company paid the interconnection tariffs set forth by the Cofetel in the above mentioned disagreements.

With respect to Grupo Iusacell, Grupo Telefonica and Unefon, the Company filed an administrative review proceeding, which was resolved on June 19, 2013 by the Cofetel and by means of which it revoked its previous rulings and determined tariffs only for years 2005 to 2007, therefore annulling the tariffs set forth for the period 2008 to 2010. Such tariffs are being contested in an amparo trial. In the new resolutions, Cofetel determined a weighted average tariff, as it had initially done so with Telcel, which can be applied to Grupo Iusacell, Grupo Telefónica and Unefon if the interconnection rate were not applied and their services were being sold at a price below such rate.

The result of the above mentioned proceedings do not create an economic contingency to the Company due to the fact that for years 2005, 2006 and 2007, it paid the interconnection tariffs order by Cofetel in the aforementioned resolutions.

(b) Interconnection Disagreements – Mobile Carriers – Years 2008 to 2011. With respect to Telcel, the Company filed an interconnection disagreement early on the year 2008, such proceeding being decided in first instance by the SCT, on the first day of September, 2008, which as mentioned before, arose from a proceeding filed by Axtel. In such ruling, the SCT set the cost based interconnection tariffs of $0.5465 pesos, $0.5060 pesos, $0.4705 and $0.4179 pesos for the years 2008, 2009, 2010 and 2011, respectively.

Telcel challenged the resolution issued by the SCT via amparo trial, and on February, 2012, the SCJN ruled that the SCT had to standing to decide on the administrative review proceeding filed by Axtel, and that the Cofetel is the authority that should determine such interconnection tariffs, therefore the Federal Telecommunications Institute (Instituto Federal de Telecomunicaciones) (“IFT”) will have to set forth the interconnection tariffs applicable between Axtel and Telcel, and consequently, the interconnection tariffs are not yet definitely defined, due to the fact that these new rulings might be, once again, challenged by the parties involved.

With respect to Grupo Telefonica, the Cofetel determined on October 20th, 2010, the interconnection tariffs for Axtel and Grupo Telefonica applicable to the period between 2008 and 2011, which consider the same amounts set forth by the SCT in the ruling issued on September 1, 2008, that is, $0.5465 pesos per real minute for 2008, $0.5060 pesos for 2009, $0.4705 pesos for 2010, and $0.4179 pesos for 2011.

This ruling was challenged via amparo trial by Grupo Telefonica, and its currently on its first stage. Final ruling on this matter is expected on the year 2014.

With respect to Grupo Iusacell and Unefon, the Cofetel determined the interconnection tariffs for the years of 2008 to 2010 on the second quarter of the year 2009, such determination being challenged by the Company via an administrative review proceeding, which is in the process of being solved by the IFT. As a result, the interconnection tariffs are not yet definitely defined, due to the fact that these new rulings might be, once again, challenged by the parties involved.

As a consequence of the rulings issued by the SCT on September 2008, the Company recognized since August 2008, the interconnection tariff of: $0.5465 pesos, $0.5060 pesos, $0.4705 y $0.4179 per real minute for Telcel, and of $0.6032 pesos for the other mobile carriers.

The tariffs that the Company was paying prior to the rulings, was of $1.3216 pesos per real minute to Telcel, and $1.21 pesos per rounded minute to the other mobile carriers. As of December 31, 2013, the difference between the amounts paid by the Company according to these tariffs, and the amounts billed by the mobile carriers, amounted to approximately Ps. 2,169 million not including value added tax.

After evaluating the actual status of the foregoing proceedings, and taking into consideration the information available and the information provided by the legal advisors, the Company's Management consider that there are enough elements to maintain the actual accounting treatment, and that at the end of the legal proceedings, the interests of the Company will prevail.

(c) Interconnection Disagreements – Telmex – Years 2009 to 2013. 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 applicable 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 aforementioned resolutions, and after such date, Telmex has billed the resultant amounts, applying the new interconnection rates. As of December 31, 2013, the difference between the amounts paid by 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 the annulment of the proceeding with the Federal Court of Tax and Administrative Justice (Tribunal Federal de Justicia Fiscal y Administrativa) requesting the annulment 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 as a result, establishes rates different to those set forth by Cofetel.

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 traffic. 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 interconnection disagreement proceeding 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.

Finally, in July 2013, Cofetel ruled on an administrative review proceeding between Telmex and the Company in connection with the tariffs applicable to the termination of long distance calls from the Company to Telmex for the years 2012, 2013 and 2014. In such administrative resolution, Cofetel determined for year 2012, tariffs per minute that go from $0.02831 to $0.01007, depending if it is a regional or national node; for year 2013, tariffs that that go from $0.02780 to $0.00968, depending if it is a regional or national node; and for year 2014, tariffs that that go from $0.02838 to $0.00968, depending if it is a regional or national node. Telmex challenged this resolution in an amparo trial which is currently in the evidence stage.

As of December 31, 2013, the Company believes that the rates determined by the Cofetel in its resolutions will prevail, and therefore it has recognized the cost, based on the rates approved by Cofetel.

As of December 31, 2009, there was a letter of credit for US $ 34 million issued by Banamex in favor of Telmex for the purpose of guaranteeing the Company's obligations, which were acquired through 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 December 31, 2013, Avantel has been able to recover the entire amount mentioned above, through compensation with regard to certain charges for services rendered by Telmex to Avantel on a monthly basis.

(d) Tecnocom. The company Tecnocom Telefonía y Redes de Mexico, S.A. De C.V. ("Tecnocom"), and the Company executed on May 30, 2011 a Services Agreement, under which Tecnocom breached the obligations therein assumed, reason for which the Company executed a letter of credit for US$1,300,898. Due to the aforementioned, Tecnocom commenced a mercantile ordinary trial against the Company before the Fifth Concurrent Court located in Monterrey, N.L., claiming the payment of the amounts agreed to be paid under the Services Agreement, for the provision of the services, as well as interests and judicial costs and expenses. This trial is in the stage of evidence. In addition to the aforementioned, Tecnocom commenced another mercantile ordinary trial before the Thirteenth District Court in Civil Matters located in Mexico City, by means of which Tecnocom claims from the Company, the declaration that the requirements for the withdrawal of the aforementioned Letter of Credit were not met, and from the bank that issued the letter of credit, they claim the payment or reimbursement of the letter. Under those claims, the Company promoted a motion requesting a joinder of the trials, due to the fact that Tecnocom filed two different trials before different courts, both of which arise from the same cause and involve the same parties.

After evaluating the arguments presented by the parties involved in the trials, and taking into consideration the arguments presented by our legal advisors, the Company's Management considers that at the end of the legal proceedings, the Company's interests shall prevail.

(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.

(f) In compliance with commitments made in the acquisition of concession rights, the Company has granted surety bonds to the Federal Treasury and to the Department of Communications and Transportation amounting to Ps 5,699 and to other service providers amounting to Ps 1,121,748.

(g) The concessions granted by the Department of Communications and Transportation (SCT) establish certain obligations to the Company, including, but not limited to: (i) filing annual reports with the SCT, including identifying main stockholders of the Company, (ii) reporting any increase in common stock, (iii) providing continuous services with certain technical specifications, (iv) filing monthly reports about disruptions, (v) filing the services' tariff, and (vi) providing a bond.

(h) The Company leases some equipment and facilities under operating leases. Some of these leases have renewal clauses. Lease expense for year ended December 31, 2013 and 2012 amounted to Ps 866,695 and Ps 641,977, respectively.

The annual payments under these leases as of December 31, 2013 are as follows:

		Leases contracts in:	
		PESOS (THOUSANDS)	DOLLARS (THOUSANDS)
2014	Ps	65,242	29,843
2015		50,919	27,854
2016		41,135	23,659
2017		30,126	22,480
2018		19,304	20,521
2019 and thereafter		59,183	157,613
	Ps	265,909	281,970

(24) Recently Issued Accounting Standards

The following standards become effective in subsequent periods and management is in the process of assessing their possible impact on its consolidated financial position and results of operations.

Standards and amendments to be adopted in 2015

IFRS 9, "Financial Instruments," issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

The standard requires all recognized financial assets that are within the scope of IAS 39 to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognized in profit or loss.

MEMORY PARAMETERS

2.9 / 3.1 / 3.2 / 3.3 / 3.4 / 3.5 / 3.6 / 3.7 / 3.8 / 3.9 / 3.10 / 3.11 / 3.13

We submit, as every year, the AXTEL Integrated Report for 2013. This document is our third sustainability report which, for the second time, is integrated with our annual financial performance, giving continuity to the results published in the AXTEL Integrated Report for 2012.

The information expressed corresponds to the period from January to December 2013 and is presented under the Guide of Global Reporting Initiative (GRI) in application level B+. It comprises indicators from all operations at AXTEL which include the corporate offices in Monterrey and the administrative and operations centers around the Country, excluding operations from the suppliers, shareholders, clients, and/or trade partners.

The document was verified by the enterprise Redes Sociales LT, which validated the information through documents and interviews ensuring that the information submitted was truthful and meets the guidelines of the GRI G3.1 Guide. During 2013 there were no significant changes in size, structure and ownership of our company, and the information is expressed under the same methods and scope as the previous reports.

Materiality of the information was determined according to internal analysis exercises in regards to relevant information for our business, as well as in dialogues with collaborators and stakeholders. The numerical data, indicators and calculations are obtained from our internal information systems, as well as controls and registration from our operations.

For more information regarding the information submitted, or to receive more comments regarding our 2013AXTEL Integrated Report please contact:

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MATERIAL TOPICS 3.5

At AXTEL we carried out a process for materiality analysis to determine the indicators to be reported in 2013.

Some of the actions carried out were:
- Meetings with different areas in the company.
- Consultation with different national enterprises in order to take their best practices as reference.
- Benchmark of industry reports at a national and international level.
- Recommendations and protocols of the GRI Guidelines.
- Communication with stakeholders through our different communication forms.
- Internal Documents.

Once this information was available, an analysis was carried out to determine what type of information was available through our Systems, in such a way that the data reported may be reliable, valid, and with annual follow-up.

Among the material aspects for each Perspective reported we found:

MATERIAL TOPICS FOR AXTEL	
Corporate governance	The ethical behavior of AXTEL personnel is relevant for the sustainability of the company, thus there have been No-Gift and Anti-corruption policies established, as well as a communication program of the Ethics Code. Another material topic is the incorporation of its Board of Directors and the corporate governing policies under which they meet and make decisions. Likewise, the risks to which the business is exposed are analyzed, in order to determine the actions to mitigate them.
Customer service	Since our business is centered in customer service, this aspect is a priority in our operation. We have different forms of contact with our customers and users, which are taken into consideration to improve service quality.
Labor	For AXTEL its human resource is very important, thus offering and maintaining optimum safety and hygienic conditions is a priority as well as offering the collaborators campaigns focused on care for their health and prevention of diseases. We maintain personnel indicators by region and gender, which enables us to map and plan the activities and training provided for their development.
Environment	AXTEL, being a service enterprise, pays special attention to its carbon dioxide emissions, since it has a vehicle fleet at a national level which is used in the process of installing the company products and services. Another material aspect is waste generation, since, due to the operation of the company, it continuously generates waste requiring special handling (aluminum, carton, steel, iron) as well as hazardous waste (electronics, optical fiber, diesel).
Finance	Maintaining healthy financial statements, through an appropriate management and carrying out periodic audits is a priority for AXTEL. During year 2013 we achieved positive results stemming from a recapitalization plan developed during 2012 and successfully carried out in January 2013. The noticeable improvement in our capital structure was translated into a greater flexibility in channeling the necessary investments to continue carrying our key strategic initiatives and being able to improve our financial results.

GRI INDEX 3.12

AXTEL REPORT 2013 - LEVEL B+

SCOPE	SUB-TOPIC		INDICATOR	PAGE
PROFILE	Strategy and analysis	1.1	Statement from top responsible individual in making decisions for the organizations.	03
		1.2	Description of key impacts, risks, and opportunities.	13
		2.1	Name of the organization.	07
		2.2	Main services.	17, 54
		2.3	Operational structure of the organization.	08, 12
		2.4	Location of headquarters of the organization.	07
		2.5	Number of countries where the organization operates.	07
		2.6	Nature of the ownership and legal form.	08
		2.7	Markets served.	17, 54
		2.8	Scale of the reporting organization.	07, 35
		2.9	Significant changes in the size, structure and ownership of the organization during the period covered.	102
		2.10	Awards and distinctions received.	22
	Memory parameters	3.1	Reporting period.	102
		3.2	Date of most recent previous report.	102
		3.3	Reporting cycle.	102
		3.4	Contact point for report matters.	102
		3.5	Process for defining report content.	24, 103
		3.6	Report coverage.	102
		3.7	Limitations on report scope or coverage.	102
		3.8	Base in including information in case of joint ventures.	102
		3.9	Data measuring techniques and bases for calculations.	102
		3.10	Description of re-statement of information provided in earlier reports.	102
		3.11	Significant changes from previous periods in scope, coverage or assessment methods of the report.	102
		3.12	Table indicating location of report basic contents.	104
		3.13	Current policy and practice regarding report external verification.	102
	Government	4.1	Governance structure of the organization.	08
		4.2	Position of chairman of highest governance body.	08
		4.3	Number of independent members in highest governance body.	08
		4.4	Stockholders and employee mechanisms to communicate recommendations or indications to highest governance body.	08
		4.5	Linkage between retribution of members in highest governance body, top directors and executives.	08
		4.6	Implemented procedures to prevent conflict of interest in highest governance body.	08, 14
		4.7	Procedure to determine training and experience of highest governance body.	08
		4.8	Mission, vision, and internal values, code of conduct and principles relevant for economic, social, environmental performance and implementation status.	07
		4.9	Highest governance body procedures in overseeing identification and management of economic, environmental and social performance.	08

SCOPE	SUB-TOPIC		INDICATOR	PAGE
PROFILE	Government	4.10	Performance evaluation procedures of highest governance body.	08
		4.11	Description of how the organization has adopted a precautionary principle.	13
		4.12	Principles or social, environmental and economic programs developed externally.	24
		4.13	Main services.	24
	Stakeholders participation	4.14	Stakeholders relation the organization has included,	24
		4.15	Base for identification and selection of stakeholders with whom the organization is engaged.	24
		4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	24, 30
		4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.	24, 30
	Management focus performance indicators	5.1	The section that addresses performance indicators in sustainability is organized in the following dimensions: economic, environmental and social.	44
ECONOMIC PERSPECTIVE	Economic performance	EC1	Economic value generated and distributed.	52
	Market presence	EC5	Range in relation between standard initial wage and local minimum wage in places where significant operations are performed.	35
		EC6	Policy, practices and proportion of expense corresponding to local suppliers in places where significant operations are performed.	25, 28, 29
		EC7	Local hiring procedures and proportion of top directors native from the local community in areas where significant operations are performed.	36
	Indirect environmental impact	EC8	Development and impact of infrastructure investments and services provided mainly for the benefit of the community through commercial, pro bono, or in kind commitments.	51
		EC9	Understanding and description of significant indirect economic impact, including the scope of such impact.	51
SOCIAL PERSPECTIVE	Employment	LA1 (P)	Breakdown of workers by type of employment, by contract, and by region.	35 - 37
		LA2	Total number of employees and average turnover, broken down by age group, gender, and region.	37, 38
	Training and education	LA3	Social benefits for full-time employees, not offered to temporary workers or part-time workers. *In AXTEL there are no differences in the benefits granted to full-time employees and those working part-time. Some of these benefits are life insurance, major medical expense insurance, grocery bonus savings fund, paternity and maternity leave, 100 percent vacation payment and 30 days Christmas Bonus per year.*	
	Company / employee relations	LA4	Percentage of employees covered by a collective agreement.	35
		LA5	Minimum pre-notification Period(s) regarding organizational changes. *The minimum time for pre-notification regarding organizational changes is 12 weeks, and is established in the collective labor agreement of our unionized collaborators.*	

SCOPE	SUB. TOPIC		INDICATOR	PAGE
SOCIAL PERSPECTIVE	Health and safety at the job	LA6	Total percentage of employees represented in health and safety joined committees management-employees. *75 percent of the unionized collaborators are represented in health and safety committees.*	
		LA7	Rates for absenteeism, professional diseases, lost days and number of fatalities related with work by region.	41
		LA8	Programs on education, training, counseling, prevention and risk control applied to the workers, their families or members of the community related to severe diseases.	40
		LA9	Health and safety matters covered in formal agreements with unions. *We have Hygiene and Safety Regulations; Internal Work Regulations and Safety Policy. Likewise 100 percent of the operational collaborators have their personal protection equipment and there are periodic inspections carried out in matters related with workers' safety and health.*	
	Education	LA10 (P)	Average number of hours of formation per year per employee, divided by category.	16 39 - 41
		LA12	Percentage of employees receiving regular performance assessments and professional development.	40
	Diversity and equal opportunities	LA13 (P)	Composition of corporate governance and staff bodies by gender, age group, minorities and other diversity indicators. *Partial report, the age of the board members has not been included.*	8, 12, 36
	Supply practices	HR2 (P)	Percentage of key distributors or contractors that have been subject to analysis in regards to human rights, and measures adopted as a consequence.	14, 15, 16
		HR3 (P)	Total number of hours formation of employees regarding policies and procedures related to human rights aspects relevant for their activities, including the percentage of employees trained.	16
	Human rights / No discrimination	HR4	Total number of discrimination incidents and the corrective actions taken.	15
	Freed of association	HR5	Company activities where the right to freedom of association and invoke the collective agreements may run important risks. *All our collaborators have the right of association and invoke the collective agreements if they so desire.* *In 2013 there was no activity that placed this right under risk.*	16
	Child exploitation	HR6	Activities identified that involve a potential risk for child exploitation incidents.	16
	Forced labor	HR7	Operations identified as a significant risk for being the origin of forced or non-voluntary.	16
	Security practices	HR8	Percentage of security personnel trained in policies or procedures of the organization in human rights aspects.	16

SCOPE	SUB-TOPIC		INDICATOR	PAGE
SOCIAL PERSPECTIVE	Community	SO1	Nature and scope and effectiveness programs and practices to assess and manage impact of the operations in the communities, including entrance, operation, and exit from the company.	32, 44
	Corruption	SO2	Percentage and total number of business units analyzed with regards to risks related with corruption.	13
		SO3	Percentage of employees trained in anti-corruption policies and procedures in the organization.	14
		SO4	Measures taken in response to corruption incidents.	
			As mentioned on page 15 of this report, there were no corruption incidents.	
	Political public	SO5	Position in public policies and participation in their development and lobbying activities.	24
		SO6	Valor Total value of financial support or in-kind to political parties or related institutions, per country.	
			In 2013 there was no financial support or in-kind given to political parties or related institutions.	
	Unfair competition	SO7	Total number of actions due to causes related with monopolistic practices and against fair competition.	17
	Regulation Compliance	SO8	Monetary value of sanctions and significant fines and total number of non-monetary sanctions derived from non-compliance of laws and regulations.	
			In 2013 there were no sanctions or significant fines due to this concept .	
	Safety and Health client	PR5	Customer satisfaction practices including the results of the customer satisfaction studies.	30
	Marketing communication	PR6	Legal compliance programs or adherence to standards and voluntary codes mentioned in marketing communications, included in advertising, other promotional activities and sponsorships.	
			In AXTEL we carry out our own marketing communication according to what is established in the Federal Consumer Protection Law and the Industrial Property Law, which we review and apply permanently.	
		PR7	Total number of incidents resulting from non-compliance of regulations regarding marketing communications, including advertising, promotion and sponsorship, distributed based on the type of result of such incidents.	
			In 2013 there were no fines registered due to non-compliance to the regulations on these concepts.	
	Customer privacy	PR8	Total number of complaints dully supported in regards to privacy and customer information leaks.	
			In 2013 there were no complaints or reports due to privacy violations or personal information leaks from our clients.	
	Regulation compliance	PR9	Cost of significant fines due to non-compliance of standards in regards to supply and use of organization products and services.	
			In 2013 there were no fines for this concept.	

SCOPE	SUB-TOPIC	INDICATOR		PAGE
ENVIRONMENTAL PERSPECTIVE	Materials	EN1	Materials used by weight and volume.	47
	Energy	EN3	Direct energy consumption broken down by primary sources.	45
		EN4	Direct energy consumption broken down by indirect sources.	45
		EN5	Total energy savings due to preservation and improvements in efficiency.	45
		EN7	Initiatives to reduce indirect energy consumption and reductions achieved with such initiatives.	45
	Water	EN8	Total water withdrawal by source.	47
		EN9	Water sources significantly affected by withdrawal of water.	47
	Emissions, discharged waste	EN16	Total emissions, direct and indirect, of greenhouse gas emissions, in weight.	46
		EN17	Other relevant indirect greenhouse gas emissions by weight.	45
		EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	45
		EN22	Total weight of waste managed, according to type and treatment method.	47
		EN24	Weight of waste transported, imported, exported or treated that are considered hazardous.	47
	Products and services	EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	44
		EN27	Percentage of products sold, and its packaging material recovered at the end of its useful life, by product category.	47
	Regulation compliance	EN28	Cost of significant sanctions and number of non-monetary sanctions due to non-compliance of environmental regulations. *During 2013, AXTEL did not receive any significant fine or monetary or non-monetary sanction from the authorities related with non-compliance of the current environmental regulations or legislation.*	
	Transportation	EN29	Significant environmental impacts in transportation of product and other goods and materials as well as personnel of the organization.	45, 46
	General	EN30 (P)	Deployment of the type of environmental expenses and investments.	47

All indicators are reported in full manner, except those having the letter (P) = partial, next to the code.

REDES SOCIALES

Global Reporting Initiative Organizational Stakeholder 2014

Independent Reviewing Report for AXTEL Annual Integrated Report for 2013

Scope of our work

An independent and unbiased verification of AXTEL Annual Integrated Report for 2013 has been performed.

Our work comprised the review of the content of the report in regards to the coverage of sustainable performance indicators, according to the materiality definition and complying with the Global Reporting Initiative, GRI, version 3.1 standard.

Standards

In order to issue this verification statement, Redes Sociales took the ethical principles of independence of ISAE 3000 and the guide for External Assurance of the Sustainability Memories in GRI as reference.

Activity summary

The actions carried out by Redes Sociales for this verification were the following:

- Analysis of the gathering processes and information validation.
- Verification of key indicators included in the report.
- Verification of quantitative and qualitative information based on a selection of GRI indicators.
- Development of interviews with personnel involved in the elaboration of the Report.
- Comparison of 2013 report vis-a-vis 2012 report in regards to program follow-up, information depth and increase of indicators reported.

Conclusions

There is no evidence that the content of the indicators reviewed in this report, as well as the processes and actions related around AXTEL sustainability have errors.

The review process shows that the current Report communicates in a balanced and timely manner the indicators selected for the verification.

AXTEL Annual Integrated Report for 2013, in subjects related to sustainable performance, has been prepared according to the Guide for the generation of the Sustainability Report for Global Reporting Initiative, version G3.1, with a Level of Application B+.

General recommendations

Additionally, we will deliver AXTEL an internal report regarding the findings and opportunity areas disclosed by the verification process. Nevertheless, and as a result of our review, we would like to provide the following general recommendations:

- Maintain the monitoring, gathering and information validation systems, by business unit and region, in order to give continuity to the results presentation according to the standards to which the organization is subscribed (GRI G4, United Nations Global Compact, Sustainable IPC among others.
- Procure the processes necessary to migrate to version G4 of the GRI guide, through consolidation of the dialogue with stakeholders, early determination of material aspects of the organization and improvements in value chain management.

Mariana Martínez Valerio
Redes Sociales en LT S.A. de C.V

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Statement of independence, competency and accountability of Redes Sociales

The Redes Sociales collaborators have the necessary knowledge about international standards used in the elaboration of Sustainability Reports, thus they may issue a professional opinion regarding the reports of the organizations regarding their sustainable practices.
The external verification letter of the Report and the internal report, may not be considered as an audit report, thus there is no responsibility assumed regarding the systems and management processes and internal control from which the information is obtained. The report and its content are the sole responsibility of AXTEL.

Statement
GRI Application Level Check

GRI hereby states that **AXTEL S.A.B de C.V** has presented its report "2013 Annual Integrated Report" to GRI's Report Services which have concluded that the report fulfills the requirement of Application Level B+.

GRI Application Levels communicate the extent to which the content of the G3.1 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3.1 Guidelines. For methodology, see www.globalreporting.org/SiteCollectionDocuments/ALC-Methodology.pdf

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 24 April 2014

Ásthildur Hjaltadóttir
Director Services
Global Reporting Initiative

B+
GRI REPORT
GRI CHECKED

The "+" has been added to this Application Level because **AXTEL S.A.B de C.V** has submitted (part of) this report for external assurance. GRI accepts the reporter's own criteria for choosing the relevant assurance provider.

The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. www.globalreporting.org

***Disclaimer:** Where the relevant sustainability reporting includes external links, including to audio visual material, this statement only concerns material submitted to GRI at the time of the Check on 14 April 2014. GRI explicitly excludes the statement being applied to any later changes to such material.*

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