

# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **02** YEAR: **2014**

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

## STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2014 AND 31 DECEMBER 2013

(Thousand Pesos)

**CONSOLIDATED**  
**Final Printing**

| REF             | ACCOUNT / SUBACCOUNT                         | ENDING CURRENT    | PREVIOUS YEAR END |
|-----------------|--|-------------------|-------------------|
|                 |  | Amount            | Amount            |
| <b>10000000</b> | <b>TOTAL ASSETS</b>                          | <b>20,221,389</b> | <b>19,882,652</b> |
| <b>11000000</b> | <b>TOTAL CURRENT ASSETS</b>                  | <b>5,276,911</b>  | <b>4,879,496</b>  |
| 11010000        | CASH AND CASH EQUIVALENTS                    | 794,739           | 1,292,263         |
| 11020000        | SHORT-TERM INVESTMENTS                       | 0                 | 0                 |
| 11020010        | AVAILABLE-FOR-SALE INVESTMENTS               | 0                 | 0                 |
| 11020020        | TRADING INVESTMENTS                          | 0                 | 0                 |
| 11020030        | HELD-TO-MATURITY INVESTMENTS                 | 0                 | 0                 |
| 11030000        | TRADE RECEIVABLES, NET                       | 3,714,694         | 2,981,732         |
| 11030010        | TRADE RECEIVABLES                            | 6,209,654         | 5,388,862         |
| 11030020        | ALLOWANCE FOR DOUBTFUL ACCOUNTS              | -2,494,960        | -2,407,130        |
| 11040000        | OTHER RECEIVABLES, NET                       | 302,736           | 291,410           |
| 11040010        | OTHER RECEIVABLES                            | 302,736           | 291,410           |
| 11040020        | ALLOWANCE FOR DOUBTFUL ACCOUNTS              | 0                 | 0                 |
| 11050000        | INVENTORIES                                  | 172,523           | 106,313           |
| 11051000        | BIOLOGICAL CURRENT ASSETS                    | 0                 | 0                 |
| 11060000        | OTHER CURRENT ASSETS                         | 292,219           | 207,778           |
| 11060010        | PREPAYMENTS                                  | 145,461           | 65,578            |
| 11060020        | DERIVATIVE FINANCIAL INSTRUMENTS             | 0                 | 0                 |
| 11060030        | ASSETS AVAILABLE FOR SALE                    | 0                 | 0                 |
| 11060050        | RIGHTS AND LICENSES                          | 0                 | 0                 |
| 11060060        | OTHER  | 146,758           | 142,200           |
| <b>12000000</b> | <b>TOTAL NON-CURRENT ASSETS</b>              | <b>14,944,478</b> | <b>15,003,156</b> |
| 12010000        | ACCOUNTS RECEIVABLE, NET                     | 281,415           | 333,751           |
| 12020000        | INVESTMENTS                                  | 8,426             | 11,640            |
| 12020010        | INVESTMENTS IN ASSOCIATES AND JOINT VENTURES | 8,426             | 11,640            |
| 12020020        | HELD-TO-MATURITY INVESTMENTS                 | 0                 | 0                 |
| 12020030        | AVAILABLE-FOR-SALE INVESTMENTS               | 0                 | 0                 |
| 12020040        | OTHER INVESTMENTS                            | 0                 | 0                 |
| 12030000        | PROPERTY, PLANT AND EQUIPMENT, NET           | 13,059,843        | 13,187,187        |
| 12030010        | LAND AND BUILDINGS                           | 430,990           | 430,990           |
| 12030020        | MACHINERY AND INDUSTRIAL EQUIPMENT           | 33,360,946        | 32,406,301        |
| 12030030        | OTHER EQUIPMENT                              | 4,659,911         | 4,452,086         |
| 12030040        | ACCUMULATED DEPRECIATION                     | -26,602,612       | -24,960,886       |
| 12030050        | CONSTRUCTION IN PROGRESS                     | 1,210,608         | 858,696           |
| 12040000        | INVESTMENT PROPERTY                          | 0                 | 0                 |
| 12050000        | BIOLOGICAL NON- CURRENT ASSETS               | 0                 | 0                 |
| 12060000        | INTANGIBLE ASSETS, NET                       | 198,565           | 223,792           |
| 12060010        | GOODWILL                                     | 0                 | 0                 |
| 12060020        | TRADEMARKS                                   | 0                 | 0                 |
| 12060030        | RIGHTS AND LICENSES                          | 0                 | 0                 |
| 12060031        | CONCESSIONS                                  | 164,188           | 184,350           |
| 12060040        | OTHER INTANGIBLE ASSETS                      | 34,377            | 39,442            |
| 12070000        | DEFERRED TAX ASSETS                          | 1,261,275         | 1,101,937         |
| 12080000        | OTHER NON-CURRENT ASSETS                     | 134,954           | 144,849           |
| 12080001        | PREPAYMENTS                                  | 72,932            | 84,619            |
| 12080010        | DERIVATIVE FINANCIAL INSTRUMENTS             | 0                 | 0                 |
| 12080020        | EMPLOYEE BENEFITS                            | 0                 | 0                 |
| 12080021        | AVAILABLE FOR SALE ASSETS                    | 0                 | 0                 |
| 12080040        | DEFERRED CHARGES                             | 0                 | 0                 |
| 12080050        | OTHER  | 62,022            | 60,230            |
| <b>20000000</b> | <b>TOTAL LIABILITIES</b>                     | <b>13,116,887</b> | <b>12,354,994</b> |
| <b>21000000</b> | <b>TOTAL CURRENT LIABILITIES</b>             | <b>5,063,464</b>  | <b>4,299,435</b>  |
| 21010000        | BANK LOANS                                   | 130,000           | 0                 |
| 21020000        | STOCK MARKET LOANS                           | 0                 | 0                 |
| 21030000        | OTHER LIABILITIES WITH COST                  | 261,057           | 308,945           |
| 21040000        | TRADE PAYABLES                               | 3,376,381         | 2,741,308         |
| 21050000        | TAXES PAYABLE                                | 199,501           | 285,987           |
| 21050010        | INCOME TAX PAYABLE                           | 199,501           | 285,987           |
| 21050020        | OTHER TAXES PAYABLE                          | 0                 | 0                 |
| 21060000        | OTHER CURRENT LIABILITIES                    | 1,096,525         | 963,195           |

# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **02** YEAR: **2014**

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

## STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2014 AND 31 DECEMBER 2013

(Thousand Pesos)

**CONSOLIDATED**  
**Final Printing**

| REF             | ACCOUNT / SUBACCOUNT   | ENDING CURRENT   | PREVIOUS YEAR END |
|-----------------|--|------------------|-------------------|
|                 |  | Amount           | Amount            |
| 21060010        | INTEREST PAYABLE   | 321,270          | 278,807           |
| 21060020        | DERIVATIVE FINANCIAL INSTRUMENTS                                     | 0                | 0                 |
| 21060030        | DEFERRED REVENUE   | 513,857          | 583,915           |
| 21060050        | EMPLOYEE BENEFITS  | 0                | 0                 |
| 21060060        | PROVISIONS   | 0                | 0                 |
| 21060061        | CURRENT LIABILITIES RELATED TO AVAILABLE FOR SALE ASSETS             | 0                | 0                 |
| 21060080        | OTHER  | 261,398          | 100,473           |
| <b>22000000</b> | <b>TOTAL NON-CURRENT LIABILITIES</b>                                 | <b>8,053,423</b> | <b>8,055,559</b>  |
| 22010000        | BANK LOANS   | 0                | 0                 |
| 22020000        | STOCK MARKET LOANS   | 7,294,940        | 7,287,800         |
| 22030000        | OTHER LIABILITIES WITH COST  | 329,676          | 267,574           |
| 22040000        | DEFERRED TAX LIABILITIES   | 0                | 0                 |
| 22050000        | OTHER NON-CURRENT LIABILITIES  | 428,807          | 500,185           |
| 22050010        | DERIVATIVE FINANCIAL INSTRUMENTS                                     | 105,459          | 116,658           |
| 22050020        | DEFERRED REVENUE   | 33,900           | 33,900            |
| 22050040        | EMPLOYEE BENEFITS  | 21,560           | 21,330            |
| 22050050        | PROVISIONS   | 0                | 0                 |
| 22050051        | NON-CURRENT LIABILITIES RELATED TO AVAILABLE FOR SALE ASSETS         | 0                | 0                 |
| 22050070        | OTHER  | 267,888          | 328,297           |
| <b>30000000</b> | <b>TOTAL EQUITY</b>  | <b>7,104,502</b> | <b>7,527,658</b>  |
| 30010000        | EQUITY ATTRIBUTABLE TO OWNERS OF PARENT                              | 7,104,502        | 7,527,658         |
| 30030000        | CAPITAL STOCK  | 6,651,225        | 6,627,890         |
| 30040000        | SHARES REPURCHASED   | 0                | 0                 |
| 30050000        | PREMIUM ON ISSUANCE OF SHARES  | 644,710          | 644,710           |
| 30060000        | CONTRIBUTIONS FOR FUTURE CAPITAL INCREASES                           | 0                | 0                 |
| 30070000        | OTHER CONTRIBUTED CAPITAL  | 0                | 0                 |
| 30080000        | RETAINED EARNINGS (ACCUMULATED LOSSES)                               | -191,433         | 255,058           |
| 30080010        | LEGAL RESERVE  | 0                | 0                 |
| 30080020        | OTHER RESERVES   | 162,334          | 162,334           |
| 30080030        | RETAINED EARNINGS  | 92,724           | -2,314,955        |
| 30080040        | NET INCOME FOR THE PERIOD  | -446,491         | 2,407,679         |
| 30080050        | OTHERS   | 0                | 0                 |
| 30090000        | ACCUMULATED OTHER COMPREHENSIVE INCOME (NET OF TAX)                  | 0                | 0                 |
| 30090010        | GAIN ON REVALUATION OF PROPERTIES                                    | 0                | 0                 |
| 30090020        | ACTUARIAL GAINS (LOSSES) FROM LABOR OBLIGATIONS                      | 0                | 0                 |
| 30090030        | FOREIGN CURRENCY TRANSLATION   | 0                | 0                 |
| 30090040        | CHANGES IN THE VALUATION OF FINANCIAL ASSETS AVAILABLE FOR SALE      | 0                | 0                 |
| 30090050        | CHANGES IN THE VALUATION OF DERIVATIVE FINANCIAL INSTRUMENTS         | 0                | 0                 |
| 30090060        | CHANGES IN FAIR VALUE OF OTHER ASSETS                                | 0                | 0                 |
| 30090070        | SHARE OF OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINT VENTURES | 0                | 0                 |
| 30090080        | OTHER COMPREHENSIVE INCOME   | 0                | 0                 |
| 30020000        | NON-CONTROLLING INTERESTS  | 0                | 0                 |

# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **02** YEAR: **2014**

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

## STATEMENT OF FINANCIAL POSITION INFORMATIONAL DATA

AT 30 JUNE 2014 AND 31 DECEMBER 2013

(Thousand Pesos)

**CONSOLIDATED  
Final Printing**

| REF      | CONCEPTS  | ENDING CURRENT | PREVIOUS YEAR END |
|----------|---|----------------|-------------------|
|          |   | Amount         | Amount            |
| 91000010 | SHORT-TERM FOREIGN CURRENCY LIABILITIES         | 1,529,361      | 1,394,155         |
| 91000020 | LONG TERM FOREIGN CURRENCY LIABILITIES          | 7,593,709      | 7,512,194         |
| 91000030 | CAPITAL STOCK (NOMINAL)                         | 6,651,225      | 6,627,890         |
| 91000040 | RESTATEMENT OF CAPITAL STOCK                    | 0              | 0                 |
| 91000050 | PLAN ASSETS FOR PENSIONS AND SENIORITY PREMIUMS | 0              | 0                 |
| 91000060 | NUMBER OF EXECUTIVES (*)                        | 176            | 176               |
| 91000070 | NUMBER OF EMPLOYEES (*)                         | 5,461          | 5,355             |
| 91000080 | NUMBER OF WORKERS (*)                           | 1,201          | 1,260             |
| 91000090 | OUTSTANDING SHARES (*)                          | 8,802,161,826  | 8,776,192,202     |
| 91000100 | REPURCHASED SHARES (*)                          | 0              | 0                 |
| 91000110 | RESTRICTED CASH (1)                             | 0              | 0                 |
| 91000120 | GUARANTEED DEBT OF ASSOCIATED COMPANIES         | 0              | 0                 |

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

(\*) DATA IN UNITS

# MEXICAN STOCK EXCHANGE

 STOCK EXCHANGE CODE: **AXTEL**

 QUARTER: **02**

 YEAR: **2014**
**AXTEL, S.A.B. DE C.V.**

## STATEMENTS OF COMPREHENSIVE INCOME

**CONSOLIDATED**

FOR THE SIX AND THREE MONTHS ENDED 30 JUNE, 2014 AND 2013

(Thousand Pesos)

**Final Printing**

| REF             | ACCOUNT / SUBACCOUNT                                     | CURRENT YEAR     |                  | PREVIOUS YEAR    |                  |
|-----------------|--|------------------|------------------|------------------|------------------|
|                 |  | ACCUMULATED      | QUARTER          | ACCUMULATED      | QUARTER          |
| <b>40010000</b> | <b>REVENUE</b>   | <b>5,644,164</b> | <b>2,673,408</b> | <b>4,668,573</b> | <b>2,379,597</b> |
| 40010010        | SERVICES   | 5,644,164        | 2,673,408        | 4,668,573        | 2,379,597        |
| 40010020        | SALE OF GOODS  | 0                | 0                | 0                | 0                |
| 40010030        | INTERESTS  | 0                | 0                | 0                | 0                |
| 40010040        | ROYALTIES  | 0                | 0                | 0                | 0                |
| 40010050        | DIVIDENDS  | 0                | 0                | 0                | 0                |
| 40010060        | LEASES   | 0                | 0                | 0                | 0                |
| 40010061        | CONSTRUCTIONS  | 0                | 0                | 0                | 0                |
| 40010070        | OTHER REVENUE  | 0                | 0                | 0                | 0                |
| <b>40020000</b> | <b>COST OF SALES</b>                                     | <b>1,911,166</b> | <b>791,978</b>   | <b>1,162,768</b> | <b>609,067</b>   |
| 40021000        | GROSS PROFIT   | 3,732,998        | 1,881,430        | 3,505,805        | 1,770,530        |
| <b>40030000</b> | <b>GENERAL EXPENSES</b>                                  | <b>3,950,741</b> | <b>1,973,996</b> | <b>3,737,850</b> | <b>1,868,545</b> |
| <b>40040000</b> | <b>PROFIT (LOSS) BEFORE OTHER INCOME (EXPENSE), NET</b>  | <b>-217,743</b>  | <b>-92,566</b>   | <b>-232,045</b>  | <b>-98,015</b>   |
| <b>40050000</b> | <b>OTHER INCOME (EXPENSE), NET</b>                       | <b>-28,768</b>   | <b>-6,357</b>    | <b>3,080,035</b> | <b>-22,461</b>   |
| <b>40060000</b> | <b>OPERATING PROFIT (LOSS) (*)</b>                       | <b>-246,511</b>  | <b>-98,923</b>   | <b>2,847,990</b> | <b>-120,476</b>  |
| 40070000        | FINANCE INCOME   | 42,531           | 39,199           | 1,551,098        | 26,318           |
| 40070010        | INTEREST INCOME  | 7,638            | 3,325            | 7,688            | 4,137            |
| 40070020        | GAIN ON FOREIGN EXCHANGE, NET                            | 34,893           | 32,687           | 0                | 0                |
| 40070030        | GAIN ON DERIVATIVES, NET                                 | 0                | 0                | 0                | 0                |
| 40070040        | GAIN ON CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS    | 0                | 3,187            | 0                | 22,181           |
| 40070050        | OTHER FINANCE INCOME                                     | 0                | 0                | 1,543,410        | 0                |
| 40080000        | FINANCE COSTS  | 387,535          | 190,051          | 527,393          | 615,531          |
| 40080010        | INTEREST EXPENSE   | 387,225          | 190,051          | 494,742          | 166,400          |
| 40080020        | LOSS ON FOREIGN EXCHANGE, NET                            | 0                | 0                | 10,583           | 446,120          |
| 40080030        | LOSS ON DERIVATIVES, NET                                 | 0                | 0                | 0                | 0                |
| 40080050        | LOSS ON CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS    | 310              | 0                | 22,068           | 0                |
| 40080060        | OTHER FINANCE COSTS                                      | 0                | 0                | 0                | 3,011            |
| <b>40090000</b> | <b>FINANCE INCOME (COSTS), NET</b>                       | <b>-345,004</b>  | <b>-150,852</b>  | <b>1,023,705</b> | <b>-589,213</b>  |
| 40100000        | SHARE OF PROFIT (LOSS) OF ASSOCIATES AND JOINT VENTURES  | -3,263           | -3,263           | -60              | -62              |
| <b>40110000</b> | <b>PROFIT (LOSS) BEFORE INCOME TAX</b>                   | <b>-594,778</b>  | <b>-253,038</b>  | <b>3,871,635</b> | <b>-709,751</b>  |
| 40120000        | INCOME TAX EXPENSE                                       | -148,287         | -66,452          | 1,128,612        | -261,226         |
| 40120010        | CURRENT TAX  | 11,051           | 9,039            | 23,506           | -22,077          |
| 40120020        | DEFERRED TAX   | -159,338         | -75,491          | 1,105,106        | -239,149         |
| <b>40130000</b> | <b>PROFIT (LOSS) FROM CONTINUING OPERATIONS</b>          | <b>-446,491</b>  | <b>-186,586</b>  | <b>2,743,023</b> | <b>-448,525</b>  |
| 40140000        | PROFIT (LOSS) FROM DISCONTINUED OPERATIONS               | 0                | 0                | 0                | 0                |
| <b>40150000</b> | <b>NET PROFIT (LOSS)</b>                                 | <b>-446,491</b>  | <b>-186,586</b>  | <b>2,743,023</b> | <b>-448,525</b>  |
| 40160000        | PROFIT (LOSS), ATTRIBUTABLE TO NON-CONTROLLING INTERESTS | 0                | 0                | 0                | 0                |
| 40170000        | PROFIT (LOSS), ATTRIBUTABLE TO OWNERS OF PARENT          | -446,491         | -186,586         | 2,743,023        | -448,525         |
| 40180000        | BASIC EARNINGS (LOSS) PER SHARE                          | -0.05            | -0.02            | 0.31             | -0.05            |
| 40190000        | DILUTED EARNINGS (LOSS) PER SHARE                        | 0                | 0                | 0.00             | 0.00             |

# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **02**

YEAR: **2014**

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

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

**CONSOLIDATED**

FOR THE SIX AND THREE MONTHS ENDED 30 JUNE, 2014 AND 2013

(Thousand Pesos)

**Final Printing**

| REF             | ACCOUNT / SUBACCOUNT  | CURRENT YEAR    |                 | PREVIOUS YEAR    |                 |
|-----------------|---|-----------------|-----------------|------------------|-----------------|
|                 |   | ACCUMULATED     | QUARTER         | ACCUMULATED      | QUARTER         |
| <b>40200000</b> | <b>NET PROFIT (LOSS)</b>  | <b>-446,491</b> | <b>-186,586</b> | <b>2,743,023</b> | <b>-448,525</b> |
|                 | <b>DISCLOSURES NOT BE RECLASSIFIED ON INCOME</b>                              |                 |                 |                  |                 |
| 40210000        | PROPERTY REVALUATION GAINS  | 0               | 0               | 0                | 0               |
| 40220000        | ACTUARIAL EARNINGS (LOSS) FROM LABOR OBLIGATIONS                              | 0               | 0               | 0                | 0               |
| 40220100        | SHARE OF INCOME ON REVALUATION ON PROPERTIES OF ASSOCIATES AND JOINT VENTURES | 0               | 0               | 0                | 0               |
|                 | <b>DISCLOSURES MAY BE RECLASSIFIED SUBSEQUENTLY TO INCOME</b>                 |                 |                 |                  |                 |
| 40230000        | FOREING CURRENCY TRANSLATION  | 0               | 0               | 0                | 0               |
| 40240000        | CHANGES IN THE VALUATION OF FINANCIAL ASSETS HELD-FOR-SALE                    | 0               | 0               | 0                | 0               |
| 40250000        | CHANGES IN THE VALUATION OF DERIVATIVE FINANCIAL INSTRUMENTS                  | 0               | 0               | 29,351           | 0               |
| 40260000        | CHANGES IN FAIR VALUE OF OTHER ASSETS   | 0               | 0               | 0                | 0               |
| 40270000        | SHARE OF OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINT VENTURES          | 0               | 0               | 0                | 0               |
| <b>40280000</b> | <b>OTHER COMPREHENSIVE INCOME</b>   | <b>0</b>        | <b>0</b>        | <b>0</b>         | <b>0</b>        |
| <b>40290000</b> | <b>TOTAL OTHER COMPREHENSIVE INCOME</b>                                       | <b>0</b>        | <b>0</b>        | <b>29,351</b>    | <b>0</b>        |
| <b>40300000</b> | <b>TOTAL COMPREHENSIVE INCOME</b>   | <b>-446,491</b> | <b>-186,586</b> | <b>2,772,374</b> | <b>-448,525</b> |
| 40320000        | COMPREHENSIVE INCOME, ATTRIBUTABLE TO NON-CONTROLLING INTERESTS               | 0               | 0               | 0                | 0               |
| 40310000        | COMPREHENSIVE INCOME, ATTRIBUTABLE TO OWNERS OF PARENT                        | -446,491        | -186,586        | 2,772,374        | -448,525        |

# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **02**

YEAR: **2014**

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

## STATEMENTS OF COMPREHENSIVE INCOME INFORMATIONAL DATA

**CONSOLIDATED**

FOR THE SIX AND THREE MONTHS ENDED 30 JUNE, 2014 AND 2013

**(Thousand Pesos)**

**Final Printing**

| REF     | ACCOUNT / SUBACCOUNT                    | CURRENT YEAR |         | PREVIOUS YEAR |         |
|---------|---|--------------|---------|---------------|---------|
|         |   | ACCUMULATED  | QUARTER | ACCUMULATED   | QUARTER |
| 9200010 | OPERATING DEPRECIATION AND AMORTIZATION | 1,684,906    | 831,265 | 1,605,116     | 798,779 |

# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **02**

YEAR: **2014**

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

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

**CONSOLIDATED**

(Thousand Pesos)

Final Printing

| REF      | ACCOUNT / SUBACCOUNT                                | YEAR       |           |
|----------|---|------------|-----------|
|          |   | CURRENT    | PREVIOUS  |
| 92000030 | REVENUE NET (**)                                    | 11,262,085 | 9,667,714 |
| 92000040 | OPERATING PROFIT (LOSS) (**)                        | -407,812   | 2,367,167 |
| 92000060 | NET PROFIT (LOSS) (**)                              | -754,693   | 2,516,046 |
| 92000050 | PROFIT (LOSS), ATTRIBUTABLE TO OWNERS OF PARENT(**) | -754,693   | 2,516,046 |
| 92000070 | OPERATING DEPRECIATION AND AMORTIZATION (**)        | 3,298,329  | 3,169,942 |

(\*) TO BE DEFINED BY EACH COMPANY

(\*\*) INFORMATION LAST 12 MONTHS

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: AXTEL

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

QUARTER: 02 YEAR: 2014

STATEMENT OF CHANGES IN EQUITY

(THOUSAND PESOS)

CONSOLIDATED

Final Printing

| CONCEPTS   | CAPITAL STOCK | SHARES REPURCHASED | PREMIUM ON ISSUANCE OF SHARES | CONTRIBUTIONS FOR FUTURE CAPITAL INCREASES | OTHER CAPITAL CONTRIBUTED | RETAINED EARNINGS (ACCUMULATED LOSSES) |   | ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) | EQUITY ATTRIBUTABLE TO OWNERS OF PARENT | NON-CONTROLLING INTERESTS | TOTAL EQUITY |
|--|---------------|--------------------|-------------------------------|--|---------------------------|--|---|---|---|---------------------------|--------------|
|  |               |                    |                               |  |                           | RESERVES                               | UNAPPROPRIATE D EARNINGS (ACCUMULATED LOSSES) |   |   |                           |              |
| <b>BALANCE AT JANUARY 1, 2013</b>                        | 6,625,536     | 0                  | 644,710                       | 0  | 0                         | 162,334                                | -2,314,955                                    | -29,351                                       | 5,088,274                               | 0                         | 5,088,274    |
| RETROSPECTIVE ADJUSTMENTS                                | 0             | 0                  | 0                             | 0  | 0                         | 0                                      | 0   | 0   | 0                                       | 0                         | 0            |
| APPLICATION OF COMPREHENSIVE INCOME TO RETAINED EARNINGS | 0             | 0                  | 0                             | 0  | 0                         | 0                                      | 0   | 0   | 0                                       | 0                         | 0            |
| RESERVES   | 0             | 0                  | 0                             | 0  | 0                         | 0                                      | 0   | 0   | 0                                       | 0                         | 0            |
| DIVIDENDS  | 0             | 0                  | 0                             | 0  | 0                         | 0                                      | 0   | 0   | 0                                       | 0                         | 0            |
| CAPITAL INCREASE (DECREASE)                              | 383           | 0                  | 0                             | 0  | 0                         | 0                                      | 0   | 0   | 383                                     | 0                         | 383          |
| REPURCHASE OF SHARES                                     | 0             | 0                  | 0                             | 0  | 0                         | 0                                      | 0   | 0   | 0                                       | 0                         | 0            |
| (DECREASE) INCREASE IN PREMIUM ON ISSUE OF SHARES        | 0             | 0                  | 0                             | 0  | 0                         | 0                                      | 0   | 0   | 0                                       | 0                         | 0            |
| (DECREASE) INCREASE IN NON-CONTROLLING INTERESTS         | 0             | 0                  | 0                             | 0  | 0                         | 0                                      | 0   | 0   | 0                                       | 0                         | 0            |
| OTHER CHANGES  | 0             | 0                  | 0                             | 0  | 0                         | 0                                      | 0   | 0   | 0                                       | 0                         | 0            |
| COMPREHENSIVE INCOME                                     | 0             | 0                  | 0                             | 0  | 0                         | 0                                      | 2,743,023                                     | 29,351  | 2,772,374                               | 0                         | 2,772,374    |
| <b>BALANCE AT JUNE 30, 2013</b>                          | 6,625,919     | 0                  | 644,710                       | 0  | 0                         | 162,334                                | 428,068                                       | 0   | 7,861,031                               | 0                         | 7,861,031    |
| <b>BALANCE AT JANUARY 1, 2014</b>                        | 6,627,890     | 0                  | 644,710                       | 0  | 0                         | 162,334                                | 92,724  | 0   | 7,527,658                               | 0                         | 7,527,658    |
| RETROSPECTIVE ADJUSTMENTS                                | 0             | 0                  | 0                             | 0  | 0                         | 0                                      | 0   | 0   | 0                                       | 0                         | 0            |
| APPLICATION OF COMPREHENSIVE INCOME TO RETAINED EARNINGS | 0             | 0                  | 0                             | 0  | 0                         | 0                                      | 0   | 0   | 0                                       | 0                         | 0            |
| RESERVES   | 0             | 0                  | 0                             | 0  | 0                         | 0                                      | 0   | 0   | 0                                       | 0                         | 0            |
| DIVIDENDS  | 0             | 0                  | 0                             | 0  | 0                         | 0                                      | 0   | 0   | 0                                       | 0                         | 0            |
| CAPITAL INCREASE (DECREASE)                              | 23,335        | 0                  | 0                             | 0  | 0                         | 0                                      | 0   | 0   | 23,335                                  | 0                         | 23,335       |
| REPURCHASE OF SHARES                                     | 0             | 0                  | 0                             | 0  | 0                         | 0                                      | 0   | 0   | 0                                       | 0                         | 0            |
| (DECREASE) INCREASE IN PREMIUM ON ISSUE OF SHARES        | 0             | 0                  | 0                             | 0  | 0                         | 0                                      | 0   | 0   | 0                                       | 0                         | 0            |
| (DECREASE) INCREASE IN NON-CONTROLLING INTERESTS         | 0             | 0                  | 0                             | 0  | 0                         | 0                                      | 0   | 0   | 0                                       | 0                         | 0            |
| OTHER CHANGES  | 0             | 0                  | 0                             | 0  | 0                         | 0                                      | 0   | 0   | 0                                       | 0                         | 0            |
| COMPREHENSIVE INCOME                                     | 0             | 0                  | 0                             | 0  | 0                         | 0                                      | -446,491                                      | 0   | -446,491                                | 0                         | -446,491     |
| <b>BALANCE AT JUNE 30, 2014</b>                          | 6,651,225     | 0                  | 644,710                       | 0  | 0                         | 162,334                                | -353,767                                      | 0   | 7,104,502                               | 0                         | 7,104,502    |

# MEXICAN STOCK EXCHANGE

 STOCK EXCHANGE CODE: **AXTEL**

 QUARTER: **02** YEAR: **2014**
**AXTEL, S.A.B. DE C.V.**

## STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE, 2014 AND 2013

(Thousand Pesos)

**CONSOLIDATED**  
**Final Printing**

| REF                         | ACCOUNT/SUBACCOUNT   | CURRENT YEAR     | PREVIOUS YEAR    |
|-----------------------------|--|------------------|------------------|
|                             |  | Amount           | Amount           |
| <b>OPERATING ACTIVITIES</b> |  |                  |                  |
| <b>50010000</b>             | <b>PROFIT (LOSS) BEFORE INCOME TAX</b>                     | <b>-594,778</b>  | <b>3,871,635</b> |
| 50020000                    | +(-) ITEMS NOT REQUIRING CASH                              | 52,983           | 127,345          |
| 50020010                    | + ESTIMATE FOR THE PERIOD                                  | 87,876           | 116,762          |
| 50020020                    | + PROVISION FOR THE PERIOD                                 | 0                | 0                |
| 50020030                    | +(-) OTHER UNREALISED ITEMS                                | -34,893          | 10,583           |
| 50030000                    | +(-) ITEMS RELATED TO INVESTING ACTIVITIES                 | 1,686,093        | -1,476,132       |
| 50030010                    | DEPRECIATION AND AMORTISATION FOR THE PERIOD               | 1,684,906        | 1,605,116        |
| 50030020                    | (-)+ GAIN OR LOSS ON SALE OF PROPERTY, PLANT AND EQUIPMENT | -1,828           | -3,112,321       |
| 50030030                    | +(-) LOSS (REVERSAL) IMPAIRMENT                            | 0                | 0                |
| 50030040                    | (-)+ EQUITY IN RESULTS OF ASSOCIATES AND JOINT VENTURES    | 3,263            | 60               |
| 50030050                    | (-) DIVIDENDS RECEIVED                                     | 0                | 0                |
| 50030060                    | (-) INTEREST RECEIVED                                      | 0                | 0                |
| 50030070                    | (-) EXCHANGE FLUCTUATION                                   | 0                | 0                |
| 50030080                    | (-)+ OTHER INFLOWS (OUTFLOWS) OF CASH                      | -248             | 31,013           |
| 50040000                    | +(-) ITEMS RELATED TO FINANCING ACTIVITIES                 | 386,888          | -1,027,833       |
| 50040010                    | (+) ACCRUED INTEREST                                       | 387,225          | 494,742          |
| 50040020                    | (+) EXCHANGE FLUCTUATION                                   | 0                | 0                |
| 50040030                    | (+) DERIVATIVE TRANSACTIONS                                | 310              | 22,068           |
| 50040040                    | (-)+ OTHER INFLOWS (OUTFLOWS) OF CASH                      | -647             | -1,544,643       |
| <b>50050000</b>             | <b>CASH FLOWS BEFORE INCOME TAX</b>                        | <b>1,531,186</b> | <b>1,495,015</b> |
| 50060000                    | CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES             | -325,498         | -881,312         |
| 50060010                    | +(-) DECREASE (INCREASE) IN TRADE ACCOUNTS RECEIVABLE      | -820,838         | -331,329         |
| 50060020                    | +(-) DECREASE (INCREASE) IN INVENTORIES                    | -66,210          | 17,835           |
| 50060030                    | +(-) DECREASE (INCREASE) IN OTHER ACCOUNTS RECEIVABLE      | 44,075           | 21,585           |
| 50060040                    | +(-) INCREASE (DECREASE) IN TRADE ACCOUNTS PAYABLE         | 567,144          | -608,229         |
| 50060050                    | +(-) INCREASE (DECREASE) IN OTHER LIABILITIES              | 91,096           | -71,114          |
| 50060060                    | +(-) INCOME TAXES PAID OR RETURNED                         | -140,765         | 89,940           |
| <b>50070000</b>             | <b>NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>  | <b>1,205,688</b> | <b>613,703</b>   |
| <b>INVESTING ACTIVITIES</b> |  |                  |                  |
| 50080000                    | NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES         | -1,331,011       | 2,424,972        |
| 50080010                    | (-) PERMANENT INVESTMENTS                                  | 0                | 0                |
| 50080020                    | + DISPOSITION OF PERMANENT INVESTMENTS                     | 0                | 0                |
| 50080030                    | (-) INVESTMENT IN PROPERTY, PLANT AND EQUIPMENT            | -1,330,875       | -738,389         |
| 50080040                    | + SALE OF PROPERTY, PLANT AND EQUIPMENT                    | 2,795            | 3,157,912        |
| 50080050                    | (-) TEMPORARY INVESTMENTS                                  | 0                | 0                |
| 50080060                    | + DISPOSITION OF TEMPORARY INVESTMENTS                     | 0                | 0                |
| 50080070                    | (-) INVESTMENT IN INTANGIBLE ASSETS                        | 0                | 0                |
| 50080080                    | + DISPOSITION OF INTANGIBLE ASSETS                         | 0                | 0                |
| 50080090                    | (-) ACQUISITIONS OF VENTURES                               | 0                | 0                |
| 50080100                    | + DISPOSITIONS OF VENTURES                                 | 0                | 0                |
| 50080110                    | + DIVIDEND RECEIVED  | 0                | 0                |
| 50080120                    | + INTEREST RECEIVED  | 0                | 0                |
| 50080130                    | +(-) DECREASE (INCREASE) ADVANCES AND LOANS TO THIRD PARTS | 0                | 0                |
| 50080140                    | -(+)- OTHER INFLOWS (OUTFLOWS) OF CASH                     | -2,931           | 5,449            |
| <b>FINANCING ACTIVITIES</b> |  |                  |                  |
| 50090000                    | NET CASH FLOW FROM (USED IN) FINANCING ACTIVITIES          | -368,363         | -2,904,114       |
| 50090010                    | + BANK FINANCING   | 130,000          | 0                |
| 50090020                    | + STOCK MARKET FINANCING                                   | 0                | 0                |
| 50090030                    | + OTHER FINANCING  | -142,099         | 75,000           |
| 50090040                    | (-) BANK FINANCING AMORTISATION                            | 0                | -1,042,116       |
| 50090050                    | (-) STOCK MARKET FINANCING AMORTISATION                    | 0                | -1,295,214       |
| 50090060                    | (-) OTHER FINANCING AMORTISATION                           | 0                | -142,284         |
| 50090070                    | +(-) INCREASE (DECREASE) IN CAPITAL STOCK                  | 0                | 384              |
| 50090080                    | (-) DIVIDENDS PAID   | 0                | 0                |
| 50090090                    | + PREMIUM ON ISSUANCE OF SHARES                            | 0                | 0                |
| 50090100                    | + CONTRIBUTIONS FOR FUTURE CAPITAL INCREASES               | 0                | 0                |
| 50090110                    | (-) INTEREST EXPENSE                                       | -356,264         | -421,902         |
| 50090120                    | (-) REPURCHASE OF SHARES                                   | 0                | 0                |
| 50090130                    | (-)+ OTHER INFLOWS (OUTFLOWS) OF CASH                      | 0                | -77,982          |

# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **02** YEAR: **2014**

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

## STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE, 2014 AND 2013

(Thousand Pesos)

**CONSOLIDATED**

**Final Printing**

| REF     | ACCOUNT/SUBACCOUNT   | CURRENT YEAR | PREVIOUS YEAR |
|---------|--|--------------|---------------|
|         |  | Amount       | Amount        |
| 5010000 | NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS         | -493,686     | 134,561       |
| 5011000 | EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | -3,838       | 18,313        |
| 5012000 | CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD             | 1,292,263    | 597,201       |
| 5013000 | CASH AND CASH EQUIVALENTS AT END OF PERIOD                   | 794,739      | 750,075       |

# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: AXTEL

QUARTER: 02 YEAR: 2014

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

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

PAGE 1 / 8

CONSOLIDATED

Final Printing

SAN PEDRO GARZA GARCIA, MEXICO, JULY 28, 2014 - AXTEL, S.A.B. DE C.V. ("AXTEL" OR "THE COMPANY"), A LEADING MEXICAN FIXED-LINE INTEGRATED TELECOMMUNICATIONS COMPANY, ANNOUNCED TODAY ITS UNAUDITED SECOND QUARTER RESULTS ENDED JUNE 30, 2014(1). FOR ADDITIONAL INFORMATION, PLEASE CONTACT ADRIAN DE LOS SANTOS, INVESTOR RELATIONS OFFICER AND CORPORATE FINANCE DIRECTOR AT IR@AXTEL.COM.MX

### HIGHLIGHTS:

THIS QUARTER, AXTEL'S CORE BUSINESSES REVENUES INCREASED 5% YEAR-OVER-YEAR, DRIVEN BY A 7% INCREASE IN THE ENTERPRISE AND GOVERNMENT SEGMENT AND A 1% INCREASE IN THE MASS MARKET SEGMENT. WITHIN MASS MARKET, REVENUES FROM FTTH SERVICES INCREASED 46%. IN THE FIRST SEMESTER OF 2014, CORE BUSINESSES REPRESENTED 81% OF AXTEL'S TOTAL REVENUES.

IN JUNE, AXTEL OBTAINED A CONSENT FROM EXISTING BONDHOLDERS TO AMEND THE INDENTURE GOVERNING THE 2020 SECURED NOTES AND ENABLE THE COMPANY TO INCUR IN DEBT SHARING THE COLLATERAL OF THE 2020 SENIOR SECURED NOTES. GIVEN THE INCREASED NUMBER OF ATTRACTIVE INVESTMENT OPPORTUNITIES FROM THE ENTERPRISE AND GOVERNMENT SEGMENT, THE COMPANY CONTINUES EVALUATING THE APPROPRIATE TIMING TO ISSUE DEBT TO FUND THESE OPPORTUNITIES.

IN RECENT WEEKS, THE SECONDARY LAWS OF THE TELECOM REFORM WERE ENACTED CREATING A NEW AND MORE COMPETITIVE ENVIRONMENT. AMONG OTHERS, AXTEL WILL BENEFIT FROM ASYMMETRIC REGULATION IMPOSED TO THE PREPONDERANT CARRIER, WHICH EVIDENTLY STRENGTHENS AXTEL'S COMPETITIVE POSITION.

### REVENUES FROM OPERATIONS

REVENUES FROM OPERATIONS TOTALED PS. 2,673 MILLION IN THE SECOND QUARTER OF YEAR 2014 FROM PS. 2,380 MILLION FOR THE SAME PERIOD IN 2013, AN INCREASE OF PS. 294 MILLION OR 12%.

REVENUES FROM OPERATIONS TOTALED PS. 11,262 MILLION IN THE TWELVE MONTH PERIOD ENDED JUNE 30, 2014, COMPARED TO PS. 9,668 MILLION IN THE SAME PERIOD IN 2013, AN INCREASE OF PS. 1,594 MILLION, OR 16%.

### SOURCES OF REVENUES

LOCAL SERVICES. LOCAL SERVICE REVENUES TOTALED PS. 736 MILLION IN THE SECOND QUARTER OF 2014, COMPARED TO PS. 826 MILLION FOR SAME PERIOD IN 2013, REPRESENTING A DECREASE OF PS. 90 MILLION, EXPLAINED BY PS. 40 MILLION, PS. 17 MILLION AND PS. 33 MILLION DECREASES IN MONTHLY RENTS, MEASURED SERVICE AND CELLULAR REVENUES, RESPECTIVELY. AVERAGE CUSTOMERS DECLINED 5%, CONTRIBUTING TO A DECLINE IN MONTHLY RENTS OF 6%. THE 34% DECREASE IN MEASURED SERVICES IS EXPLAINED BY DECREASES OF 31% IN BILLED-TRAFFIC VOLUME AND 5% IN PRICES. THE 23% DECREASE IN CELLULAR REVENUE IS EXPLAINED BY AN 10% DECREASE IN PRICES AND A 15% DECLINE IN CELLULAR BILLED-TRAFFIC VOLUME. REVENUES COMING FROM MONTHLY RENTS REPRESENTED 81% OF LOCAL REVENUES DURING THE THREE MONTH PERIOD ENDED JUNE 30, 2014. FOR THE TWELVE MONTH PERIOD ENDED JUNE 30, 2014, LOCAL REVENUES TOTALED PS. 3,031 MILLION, COMPARED TO PS. 3,443 MILLION REGISTERED IN THE SAME PERIOD IN 2013, A DECREASE OF PS. 412 MILLION OR 12% MOSTLY EXPLAINED BY PS. 248, PS. 59 AND PS. 105 MILLION DECLINES IN MONTHLY RENTS, MEASURED SERVICE AND CELLULAR REVENUES, RESPECTIVELY.

LONG DISTANCE SERVICES. REVENUES AMOUNTED TO PS. 250 MILLION IN THE SECOND QUARTER OF 2014, COMPARED TO PS. 288 MILLION FOR SAME PERIOD IN 2013, A 13% DECREASE. BILLED-TRAFFIC VOLUME DECLINED 1% AND BILLED-TRAFFIC PRICES DECLINED 13%. FOR THE TWELVE MONTH PERIOD ENDED JUNE 30, 2014, LONG DISTANCE REVENUES TOTALED PS. 1,079 MILLION COMPARED TO PS. 1,194 MILLION REGISTERED IN 2013, A PS. 114 MILLION, OR 10%, DECLINE.

INTERNET & VIDEO. QUARTERLY REVENUES TOTALED PS. 330 MILLION, COMPARED TO PS. 251 MILLION IN THE SAME PERIOD IN 2013, A 31% OR PS. 79 MILLION INCREASE DRIVEN BY THE PAY-TV SERVICE AND THE INCREASE IN MASS MARKET, OR "ON-DEMAND" INTERNET SERVICES REVENUES, WHICH INCREASED 15% YEAR-OVER-YEAR. DURING THE TWELVE MONTH PERIOD ENDED ON JUNE 30, 2014, INTERNET AND VIDEO SERVICES REVENUES TOTALED PS. 1,207 MILLION FROM PS. 908 MILLION REGISTERED IN 2013, AN INCREASE OF PS. 299 MILLION, OR 33%.

DATA & NETWORK. DATA AND NETWORK REVENUES AMOUNTED TO PS. 474 MILLION IN THE SECOND

# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: AXTEL

QUARTER: 02 YEAR: 2014

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

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

PAGE 2 / 8

CONSOLIDATED

Final Printing

QUARTER OF 2014, COMPARED TO PS. 481 MILLION IN THE SAME PERIOD IN 2013, A 1% OR PS. 7 MILLION DECREASE DRIVEN BY A 2% DECLINE IN DEDICATED INTERNET REVENUES. DURING THE TWELVE MONTH PERIOD ENDED ON JUNE 30, 2014, DATA AND NETWORK SERVICES REVENUES TOTALED PS. 1,832 MILLION FROM PS. 1,962 MILLION REGISTERED IN 2013, A DECREASE OF PS. 129 MILLION, OR 7%. COMPETITIVE PRESSURES ON PRICES AND MIGRATION TO VALUE-ADDED INTEGRATED SERVICES SOLUTIONS EXPLAIN THE DECLINE IN REVENUES.

INTEGRATED SERVICES & EQUIPMENT SALES. QUARTERLY REVENUES TOTALED PS. 428 MILLION IN THE SECOND QUARTER OF 2014, FROM PS. 267 MILLION IN THE SAME QUARTER OF PREVIOUS YEAR, A 60% INCREASE EXPLAINED MOSTLY BY AN INCREASED AMOUNT OF INTEGRATED SOLUTIONS PROJECTS PROVIDED TO CORPORATE AND GOVERNMENT CUSTOMERS. FOR THE TWELVE MONTH PERIOD ENDED JUNE 30, 2014, REVENUES TOTALED PS. 2,575 MILLION FROM PS. 1,194 MILLION REGISTERED IN 2013, AN INCREASE OF PS. 1,380 MILLION, OR 116%.

INTERNATIONAL TRAFFIC. IN THE SECOND QUARTER OF 2014, INTERNATIONAL TRAFFIC REVENUES TOTALED PS. 372 MILLION, AN INCREASE OF PS. 201 MILLION OR 118% VERSUS THE SAME QUARTER OF PREVIOUS YEAR, EXPLAINED BY AN INCREASE IN PRICES ATTRIBUTABLE TO A CHANGE IN THE MIX TOWARDS HIGHER PRICED INTERNATIONAL MOBILE TRAFFIC VS. ON-NET AND OFF-NET TRAFFIC. IN PESO TERMS, THE PRICE INCREASE WAS BENEFITED BY A 4% DEPRECIATION OF THE MEXICAN PESO VIS-À-VIS THE US DOLLAR. FOR THE TWELVE MONTH PERIOD ENDED JUNE 30, 2014, REVENUES FROM INTERNATIONAL TRAFFIC TOTALED PS. 1,185 MILLION FROM PS. 582 MILLION IN THE SAME PERIOD IN 2013, AN INCREASE OF 103% MAINLY EXPLAINED BY INCREASE IN PRICES.

OTHER SERVICES. QUARTERLY REVENUES FROM OTHER SERVICES TOTALED PS. 84 MILLION IN THE SECOND QUARTER OF 2014, FROM PS. 96 MILLION IN THE SAME QUARTER OF PREVIOUS YEAR, A DECREASE OF 12%. FOR THE TWELVE MONTH PERIOD ENDED JUNE 30, 2014, REVENUES TOTALED PS. 354 MILLION FROM PS. 385 MILLION REGISTERED IN 2013, A DECREASE OF PS. 31 MILLION, OR 8%.

### REVENUES BY SEGMENT \*(EXCLUDES INTERNATIONAL TRAFFIC)

MASS MARKET. REVENUES TOTALED PS. 895 MILLION IN THE SECOND QUARTER OF 2014, A 1% INCREASE COMPARED TO THE SAME QUARTER IN 2013. THIS WAS MAINLY DUE TO A 10% DECLINE IN BOTH LOCAL AND LONG DISTANCE REVENUES, COMPENSATED BY A 35% INCREASE IN INTERNET AND VIDEO SERVICES. FOR THE TWELVE MONTH PERIOD ENDED JUNE 30, 2014, REVENUES TOTALED PS. 3,529 MILLION, A DECREASE OF 3% COMPARED TO THE SAME PERIOD IN 2013, MOSTLY EXPLAINED BY 12% AND 11% DECREASES IN LOCAL AND LONG DISTANCE REVENUES AND PARTIALLY OFFSET BY A 35% INCREASE IN INTERNET AND VIDEO SERVICES.

ENTERPRISE (INCLUDING GOVERNMENT). REVENUES FOR THIS SEGMENT AMOUNTED TO PS. 1,237 MILLION IN THE THREE MONTH PERIOD ENDED JUNE 30, 2014, AN INCREASE OF 7% VERSUS THE SAME PERIOD IN 2013. THIS IS MOSTLY EXPLAINED BY A 60% INCREASE IN INTEGRATED SERVICES AND EQUIPMENT SALES. FOR THE TWELVE MONTH PERIOD ENDED JUNE 30, 2014, REVENUES INCREASED 24%, FROM PS. 4,731 MILLION REGISTERED IN THE TWELVE MONTH PERIOD ENDED JUNE 30, 2013, TO PS. 5,876 MILLION IN 2014. THIS IS DUE TO INCREASES IN INTEGRATED SERVICES AND INTERNET AND VIDEO SERVICES.

INTERCONNECTION, PUBLIC TELEPHONY AND CARRIERS. REVENUES FOR THIS SEGMENT REMAINED UNCHANGED AT PS. 170 MILLION IN THE SECOND QUARTER 2014, MAINLY DUE TO A 32% DECREASE IN LOCAL REVENUES, COMPENSATED BY A 17% INCREASE IN PRIVATE LINES. FOR THE TWELVE MONTH PERIOD ENDED JUNE 30, 2014, REVENUES REACHED PS. 672 MILLION, A DECLINE OF 7% COMPARED TO THE SAME PERIOD IN 2013, PRIMARILY EXPLAINED BY 30%, 5% AND 6% DECREASES IN LOCAL, LONG DISTANCE AND DATA REVENUES, RESPECTIVELY.

### CONSUMPTION

LOCAL CALLS. LOCAL CALLS TOTALED 410 MILLION CALLS IN THE SECOND QUARTER OF 2014, COMPARED TO 452 MILLION CALLS FOR SAME PERIOD IN 2013, REPRESENTING A DECREASE OF 9%. BILLED LOCAL CALLS DECREASED 27 MILLION OR 31%, WHILE LOCAL CALLS INCLUDED IN COMMERCIAL OFFERS DECREASED BY 15 MILLION OR 4%. RESIDENTIAL AND BUSINESS CUSTOMERS CONTRIBUTED WITH 2 MILLION AND 25 MILLION CALLS, RESPECTIVELY, TO THE DECLINE IN BILLED LOCAL CALLS. PART OF THE DECLINE IN VOLUME IS EXPLAINED BY THE SEASONALITY EFFECT OF EASTER WEEK AFFECTING THE SECOND QUARTER IN 2014 COMPARED TO THE FIRST QUARTER IN 2013. LOCAL CALLS INCLUDED IN COMMERCIAL OFFERS REPRESENTED 85% OF TOTAL CALLS IN THE SECOND

# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: AXTEL

QUARTER: 02 YEAR: 2014

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

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

PAGE 3 / 8

**CONSOLIDATED**

**Final Printing**

---

QUARTER OF 2014, COMPARED TO 81% IN THE YEAR-EARLIER QUARTER. FOR THE TWELVE MONTH PERIOD ENDED JUNE 30, 2014, LOCAL CALLS TOTALED 1,679 MILLION, COMPARED TO 1,822 MILLION REGISTERED IN THE SAME PERIOD IN 2013, A DECREASE OF 143 MILLION CALLS OR 8%.

CELLULAR ("CALLING PARTY PAYS"). MINUTES OF USE OF CALLS COMPLETED TO A CELLULAR LINE AMOUNTED TO 168 MILLION IN THE THREE MONTH PERIOD ENDED JUNE 30, 2014, COMPARED TO 173 MILLION IN THE SAME PERIOD IN 2013, A DECREASE OF 3%. BILLED CELLULAR MINUTES DECREASED 18 MILLION OR 15%, WHILE MINUTES IN MODULES INCLUDED IN A MONTHLY RENT INCREASED 13 MILLION MINUTES OR 26%. BILLED CELLULAR MINUTES REPRESENTED 62% OF CELLULAR MINUTES IN THE SECOND QUARTER OF 2014, COMPARED TO 71% IN THE YEAR-EARLIER QUARTER. FOR THE TWELVE MONTH PERIOD ENDED JUNE 30, 2014, CELLULAR MINUTES REACHED 677 MILLION, SIMILAR TO THE SAME PERIOD IN 2013.

LONG DISTANCE. OUTGOING LONG DISTANCE MINUTES AMOUNTED TO 634 MILLION FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2014, FROM 640 MILLION IN THE SAME PERIOD IN 2013, A 6 MILLION DECREASE. THIS, RESULTING FROM AN 11% DECREASE IN TRAFFIC FROM RESIDENTIAL CUSTOMERS. BILLED LONG DISTANCE MINUTES DURING THE SECOND QUARTER OF 2014 DECLINED 1% COMPARED TO THE SAME PERIOD IN 2013. DOMESTIC LONG DISTANCE MINUTES REPRESENTED 96% OF TOTAL TRAFFIC DURING THE QUARTER. FOR THE TWELVE MONTH PERIOD ENDED JUNE 30, 2014, OUTGOING LONG DISTANCE MINUTES AMOUNTED 2,520 MILLION, COMPARED TO 2,511 MILLION REGISTERED IN 2013, A SLIGHT INCREASE EXPLAINED BY INCREASED TRAFFIC FROM BUSINESS CUSTOMERS WHICH COMPENSATED THE DECLINE IN TRAFFIC FROM RESIDENTIAL CUSTOMERS.

## OPERATING DATA

RGUS (8) AND CUSTOMERS. AS OF JUNE 30, 2014, RGUS (REVENUE GENERATING UNITS) TOTALED 1,525 THOUSAND. DURING THE SECOND QUARTER OF 2014, THERE WERE 7 THOUSAND NET-ADDITIONS, COMPARED TO NO ADDITIONS IN THE SECOND QUARTER OF 2013, ATTRIBUTABLE MOSTLY TO AN IMPROVEMENT IN THE WIMAX CUSTOMER BASE. AS OF JUNE 30, 2014, CUSTOMERS TOTALED 628 THOUSAND, A DECLINE OF 25 THOUSAND FROM THE SAME DATE IN 2013. TOTAL CUSTOMERS DECLINED 7 THOUSAND ON A SEQUENTIAL BASIS.

VOICE RGUS (LINES IN SERVICE). AS OF JUNE 30, 2014, LINES IN SERVICE TOTALED 928 THOUSAND. DURING THE SECOND QUARTER OF 2014 AND SECOND QUARTER 2013, GROSS ADDITIONAL LINES TOTALED 53 AND 52 THOUSAND RESPECTIVELY. DISCONNECTIONS IN THE SECOND QUARTER OF 2014 TOTALED 49 THOUSAND COMPARED TO 70 THOUSAND IN THE YEAR-EARLIER QUARTER. LINES IN SERVICE IN THE SECOND QUARTER OF 2014 DECREASED 5 THOUSAND, COMPARED TO A DECREASE OF 18 THOUSAND IN THE SAME PERIOD OF 2013. AS OF JUNE 30, 2014, RESIDENTIAL LINES REPRESENTED 60% OF TOTAL LINES IN SERVICE.

BROADBAND RGUS (BROADBAND SUBSCRIBERS). BROADBAND SUBSCRIBERS INCREASED 8% YEAR-OVER-YEAR TOTALING 517 THOUSAND AS OF JUNE 30, 2014. DURING THE SECOND QUARTER OF 2014, BROADBAND SUBSCRIBERS' NET-ADDITIONS TOTALED 3 THOUSAND COMPARED TO 1 THOUSAND NET-ADDITIONS IN THE SAME PERIOD OF 2013. AS OF JUNE 30, 2014, WIMAX BROADBAND SUBS REACHED 353 THOUSAND, COMPARED TO 360 THOUSAND A YEAR AGO, WHILE AXTEL X-TREMO, OR FTTH CUSTOMERS, TOTALED 164 THOUSAND COMPARED TO 121 THOUSAND A YEAR AGO. BROADBAND PENETRATION REACHED 56% AT THE END OF THE SECOND QUARTER OF 2014, COMPARED TO 51% A YEAR AGO.

VIDEO SUBSCRIBERS. AXTEL LAUNCHED ITS PAY-TELEVISION SERVICE, AXTEL TV, ON JANUARY 30TH, 2013, AND AS OF JUNE 30, 2014, VIDEO SUBSCRIBERS REACHED 80 THOUSAND COMPARED TO 31 THOUSAND A YEAR AGO.

LINE EQUIVALENTS (E0 EQUIVALENTS). WE OFFER FROM 64 KILOBYTES PER SECOND ("KBPS") UP TO 200 MEGABYTES PER SECOND ("MBPS") DEDICATED DATA LINKS IN ALL OF OUR THIRTY-NINE EXISTING CITIES. WE ACCOUNT FOR DATA LINKS BY CONVERTING THEM TO E0 EQUIVALENTS IN ORDER TO STANDARDIZE OUR COMPARISONS VERSUS THE INDUSTRY. AS OF JUNE 30, 2014, LINE EQUIVALENTS TOTALED 919 THOUSAND, 24% INCREASE.

## COST OF REVENUES AND OPERATING EXPENSES

COST OF REVENUES. FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2014, THE COST OF REVENUES REPRESENTED PS. 792 MILLION, AN INCREASE OF 30% OR PS. 183 MILLION, COMPARED WITH THE SAME PERIOD OF YEAR 2013, MAINLY EXPLAINED BY A 114% INCREASE IN INTERNATIONAL TRAFFIC

---

# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: AXTEL

QUARTER: 02 YEAR: 2014

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

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

PAGE 4 / 8

CONSOLIDATED

Final Printing

COSTS. FOR THE TWELVE MONTH PERIOD ENDED JUNE 30, 2014, COST OF REVENUES REACHED PS. 3,733 MILLION, AN INCREASE OF PS. 1,160 MILLION IN COMPARISON WITH YEAR 2013, MAINLY DUE TO INCREASES IN INTERNATIONAL TRAFFIC AND INTEGRATED SERVICES COSTS.

GROSS PROFIT. GROSS PROFIT IS DEFINED AS REVENUES MINUS COST OF REVENUES. FOR THE SECOND QUARTER OF 2014, THE GROSS PROFIT ACCOUNTED FOR PS. 1,881 MILLION, AN INCREASE OF 6% OR PS. 111 MILLION COMPARED WITH THE SAME PERIOD IN YEAR 2013. THE GROSS PROFIT MARGIN DECREASED FROM 74.4% TO 70.4% YEAR-OVER-YEAR. FOR THE TWELVE MONTH PERIOD ENDED JUNE 30, 2014, OUR GROSS PROFIT TOTALED PS. 7,529 MILLION, COMPARED TO PS. 7,095 MILLION RECORDED IN YEAR 2013, AN INCREASE OF PS. 434 MILLION OR 6%.

OPERATING EXPENSES. IN THE SECOND QUARTER OF YEAR 2014, OPERATING EXPENSES TOTALED PS. 1,143 MILLION, PS. 73 MILLION OR 7% HIGHER THAN THE PS. 1,070 MILLION RECORDED IN THE SAME PERIOD IN YEAR 2013, EXPLAINED MAINLY BY INCREASES OF PS. 48 MILLION IN PERSONNEL AND PS. 18 MILLION IN ENTERPRISE CUSTOMERS AND NETWORK MAINTENANCE. FOR THE TWELVE MONTH PERIOD ENDED JUNE 30, 2014, OPERATING EXPENSES TOTALED PS. 4,563 MILLION, COMING FROM PS. 4,445 MILLION IN THE SAME PERIOD IN 2013, A 3% INCREASE. PERSONNEL REPRESENTED 40% OF TOTAL OPERATING EXPENSES IN THE TWELVE MONTH PERIOD ENDED JUNE 30, 2014.

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

ADJUSTED EBITDA(5). THE ADJUSTED EBITDA TOTALED PS. 739 MILLION FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2014, COMPARED TO PS. 701 MILLION FOR THE SAME PERIOD IN 2013. AS A PERCENTAGE OF TOTAL REVENUES, ADJUSTED EBITDA MARGIN REPRESENTED 27.6% IN THE SECOND QUARTER OF 2014, 38 BPS HIGHER THAN THE MARGIN RECORDED IN THE YEAR-EARLIER QUARTER. FOR THE TWELVE MONTH PERIOD ENDED JUNE 30, 2014, ADJUSTED EBITDA AMOUNTED TO PS. 2,966 MILLION, COMPARED TO PS. 2,650 MILLION IN YEAR 2013, A 12% INCREASE.

DEPRECIATION AND AMORTIZATION(10). DEPRECIATION AND AMORTIZATION TOTALED PS. 831 MILLION IN THE THREE MONTH PERIOD ENDING ON JUNE 30, 2014 COMPARED TO PS. 799 MILLION FOR THE SAME PERIOD IN YEAR 2013. DEPRECIATION AND AMORTIZATION FOR THE TWELVE MONTH PERIOD ENDED JUNE 30, 2014 REACHED PS. 3,298 MILLION, FROM PS. 3,170 MILLION IN THE SAME PERIOD IN YEAR 2013, AN INCREASE OF PS. 128 MILLION.

OPERATING INCOME (LOSS). IN THE THREE MONTH PERIOD ENDED JUNE 30, 2014, THE COMPANY RECORDED AN OPERATING LOSS OF PS. 99 MILLION COMPARED TO AN OPERATING LOSS OF PS. 120 MILLION REGISTERED IN THE SAME PERIOD IN YEAR 2013. FOR THE TWELVE MONTH PERIOD ENDED JUNE 30, 2014 OUR OPERATING LOSS REACHED PS. 408 MILLION WHEN COMPARED TO THE OPERATING INCOME OF PS. 2,367 MILLION IN THE SAME PERIOD OF YEAR 2013, A DECLINE OF PS. 2,775 MILLION MAINLY EXPLAINED BY THE GAIN RELATED TO THE SALE OF THE TELECOMMUNICATION TOWERS IN JANUARY 2013.

### CFR, INDEBTEDNESS, CASH, INVESTMENTS AND DERIVATIVE INSTRUMENTS

COMPREHENSIVE FINANCING RESULT. NET INTEREST EXPENSE FOR THE SECOND QUARTER 2014 INCREASED PS. 24 MILLION DUE TO THE HIGHER LEVEL OF DEBT IN THE SECOND QUARTER 2014 AND THE INCREASE ON THE INTEREST RATE RELATED TO THE STEP-UP SCHEME OF THE 2020 SECURED NOTES. DURING THE SECOND QUARTER 2014, THE PESO REMAINED AT SIMILAR LEVELS AGAINST THE U.S. DOLLAR GENERATING A MINOR FX GAIN. IN THE SECOND QUARTER OF 2013, AN FX LOSS OF PS. 446 MILLION WAS GENERATED BY A 6.3% PESO DEPRECIATION. CONCERNING VARIATIONS IN THE FAIR VALUE OF FINANCIAL INSTRUMENTS, THESE ARE EXPLAINED BY AN 8% AND A 19% INCREASE IN THE PRICE OF AXTELCPO DURING THE SECOND QUARTER OF 2014 AND 2013, WHICH AFFECTED THE VALUATION OF AXTEL'S POSITION HELD IN ITS OWN STOCK THROUGH THE ZERO-STRIKE-CALLS INSTRUMENTS. THE PS. 632 MILLION COMPREHENSIVE FINANCING LOSS FOR YEAR ENDED IN JUNE 2014, COMPARED TO A PS. 1,047 MILLION COMPREHENSIVE FINANCING GAIN FOR YEAR ENDED IN JUNE 2013, IS MAINLY EXPLAINED BY THE GAIN RESULTING FROM THE DEBT EXCHANGE IN THE SECOND QUARTER OF 2013 AND A 24% DECREASE IN INTEREST EXPENSES IN 2014.

DEBT. AT THE END OF THE SECOND QUARTER 2014, TOTAL DEBT INCREASED PS. 445 MILLION IN COMPARISON WITH SECOND QUARTER 2013, EXPLAINED BY (I) A PS. 377 MILLION NET INCREASE RELATED TO THE DECEMBER 2013 NOTES EXCHANGE AND THE ISSUANCE OF NEW 2020 NOTES, (II) AN INCREASE OF PS. 271 MILLION IN LEASES AND OTHER FINANCIAL OBLIGATIONS, (III) A PS. 17 MILLION DECREASE RELATED TO THE NOTES' DISCOUNT, ISSUANCE AND DEFERRED FINANCING COSTS, (IV) A PS. 93 MILLION DECREASE RELATED TO THE IMPLICIT DERIVATIVE INSTRUMENT EMBEDDED

# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **02** YEAR: **2014**

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

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

PAGE 5 / 8

**CONSOLIDATED**

**Final Printing**

IN THE SENIOR SECURED CONVERTIBLE NOTES AND (V) A PS. 94 MILLION NON-CASH DECREASE CAUSED BY THE 1% APPRECIATION OF THE MEXICAN PESO.

CASH. AS OF THE END OF THE SECOND QUARTER OF 2014, THE CASH AND EQUIVALENTS BALANCE TOTALED PS. 795 MILLION, COMPARED TO PS. 750 MILLION A YEAR AGO, AND PS. 828 MILLION AT THE BEGINNING OF THE QUARTER. AS OF THE END OF THE QUARTER, 38 PERCENT OF THE CASH BALANCE WAS MAINTAINED IN DOLLARS, THE REST IN PESOS.

CAPITAL INVESTMENTS. IN THE SECOND QUARTER OF 2014, CAPITAL INVESTMENTS TOTALED PS. 697 MILLION, OR \$54 MILLION, COMPARED TO PS. 410 MILLION, OR \$33 MILLION, IN THE YEAR-EARLIER QUARTER. FOR THE TWELVE MONTH PERIOD ENDED JUNE 30, 2014, CAPITAL INVESTMENTS TOTALED PS. 2,711 MILLION, OR \$208 MILLION, COMPARED TO PS. 1,776 MILLION, OR \$139 MILLION, FOR 2013.

OTHER INVESTMENTS. AS OF JUNE 30, 2014, THE COMPANY MAINTAINED AN ECONOMIC POSITION EQUIVALENT TO 30.4 MILLION AXTELCPOS IN ZSC.

DERIVATIVE INSTRUMENTS. THE FOLLOWING TABLE SUMMARIZES THE COMPANY'S DERIVATIVES POSITION AS OF JUNE 30, 2014.

|  | AXTEL RECEIVES           | AXTEL PAYS                  | OTHER                    |
|--|--------------------------|-----------------------------|--------------------------|
| ZERO-STRIKE EQUITY CALL OPTION<br>NOTIONAL |                          |                             | 30.4 MILLION<br>AXTELCPO |
| VALUE                                      | 30.4 MILLION<br>AXTELCPO | STRIKE PRICE:<br>¢1 PER CPO |                          |
| SETTLEMENT                                 |                          |                             | IN CASH                  |
| EXPIRATION DATE                            |                          |                             | JULY 2014                |
| VALUATION                                  |                          |                             | PS. 146.8 MILLION        |

AT THE END OF THE QUARTER, THE COMPANY'S BALANCE SHEET RECORDED A LIABILITY OF PS. 105 MILLION TO REFLECT AN IMPLICIT DERIVATIVE INSTRUMENT EMBEDDED IN ITS SENIOR SECURED CONVERTIBLE NOTES, PER APPLICABLE ACCOUNTING STANDARDS.

### FINANCIAL STATEMENTS

INFORMATION AS OF JUNE 30, 2014 COMPARED WITH INFORMATION AS OF JUNE 30, 2013

#### ASSETS

AS OF JUNE 30, 2014, TOTAL ASSETS SUMMED PS. 20,221 MILLION COMPARED TO PS. 18,924 MILLION AS OF JUNE 30, 2013, AN INCREASE OF PS. 1,298 MILLION, OR 7%.

CASH AND EQUIVALENTS. AS OF JUNE 30, 2014, WE HAD CASH AND CASH EQUIVALENTS OF PS. 795 MILLION COMPARED TO PS. 750 MILLION IN THE SAME DATE OF YEAR 2013, AN INCREASE OF PS. 45 MILLION.

ACCOUNTS RECEIVABLE. AS OF JUNE 30, 2014, THE ACCOUNTS RECEIVABLE WERE PS. 3,715 MILLION COMPARED WITH PS. 2,621 MILLION IN THE SAME DATE OF 2013, AN INCREASE OF PS. 1,093 MILLION OR 42%, MAINLY DUE TO A REVENUE INCREASE AND A HIGHER PROPORTION OF GOVERNMENT SEGMENT REVENUES WHICH HAS A LOWER RECEIVABLES TURNOVER.

PROPERTY, PLANT AND EQUIPMENT, NET. AS OF JUNE 30, 2014, THE NET OF DEPRECIATION VALUE OF PROPERTY, PLANT AND EQUIPMENT WAS PS. 13,060 MILLION COMPARED WITH PS. 13,199 MILLION AS OF JUNE 30, 2013, A DECREASE OF PS. 139 MILLION. THE PROPERTY, PLANT AND EQUIPMENT WITHOUT ADJUSTING FOR THE ACCUMULATED DEPRECIATION, WAS PS. 39,662 MILLION AND PS. 36,600 MILLION AS OF JUNE 30, 2014 AND JUNE 30, 2013, RESPECTIVELY.

#### LIABILITIES

TOTAL LIABILITIES WERE PS. 13,117 MILLION AS OF JUNE 30, 2014 COMPARED TO PS. 11,063 MILLION AS OF JUNE 30, 2013, AN INCREASE OF PS. 2,054 MILLION OR 19%.

ACCOUNTS PAYABLE & ACCRUED EXPENSES. ON JUNE 30, 2014, THE ACCOUNTS PAYABLE AND ACCRUED EXPENSES WERE PS. 3,376 MILLION COMPARED WITH PS. 1,823 MILLION ON JUNE 30, 2013, AN INCREASE OF PS. 1,553 MILLION OR 85% DUE TO AN INCREASE IN CAPITAL EXPENDITURES DURING THE QUARTER RELATED TO THE ADVANCE IN PROJECTS WITH THE ENTERPRISE AND GOVERNMENT SEGMENTS.

STOCKHOLDERS' EQUITY

# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: AXTEL

QUARTER: 02 YEAR: 2014

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

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

PAGE 6 / 8

CONSOLIDATED

Final Printing

---

ON JUNE 30, 2014, THE STOCKHOLDERS EQUITY OF THE COMPANY WAS PS. 7,105 MILLION COMPARED WITH PS. 7,861 MILLION AS OF JUNE 30, 2013, A DECREASE OF PS. 757 MILLION, OR 10%. THE CAPITAL STOCK WAS PS. 6,651 MILLION AS OF JUNE 30, 2014 COMPARED TO PS. 6,626 AS OF JUNE 30, 2013, A SLIGHT INCREASE MAINLY DUE TO THE CONVERSION OF SOME OF THE COMPANY'S SENIOR SECURED CONVERTIBLE NOTES DUE 2020.

### LIQUIDITY AND CAPITAL RESOURCES

HISTORICALLY WE HAVE RELIED PRIMARILY ON VENDOR FINANCING, THE PROCEEDS OF THE SALE OF SECURITIES, INTERNAL CASH FROM OPERATIONS AND THE PROCEEDS FROM BANK DEBT TO FUND OUR OPERATIONS, CAPITAL EXPENDITURES AND WORKING CAPITAL REQUIREMENTS. ADDITIONALLY, AND SUBJECT TO (I) MARKET CONDITIONS, (II) OUR LIQUIDITY POSITION AND (III) CONTRACTUAL OBLIGATIONS, FROM TIME TO TIME, WE MIGHT ACQUIRE SENIOR SECURED AND UNSECURED NOTES IN THE OPEN MARKET OR IN PRIVATELY NEGOTIATED TRANSACTIONS. ALTHOUGH WE BELIEVE THAT WE WILL BE ABLE TO MEET OUR DEBT SERVICE OBLIGATIONS AND FUND OUR OPERATING REQUIREMENTS IN THE FUTURE WITH CASH FLOW FROM OPERATIONS, WE MAY SEEK ADDITIONAL FINANCING WITH COMMERCIAL BANKS OR IN THE CAPITAL MARKETS FROM TIME TO TIME DEPENDING ON MARKET CONDITIONS AND OUR FINANCIAL REQUIREMENTS. WE WILL CONTINUE TO FOCUS ON INVESTMENTS IN PROPERTY, SYSTEMS AND INFRASTRUCTURE AND WORKING CAPITAL MANAGEMENT, INCLUDING THE COLLECTION OF ACCOUNTS RECEIVABLE AND MANAGEMENT OF ACCOUNTS PAYABLE.

### CASH FLOW STATEMENT

FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2014 COMPARED WITH THE THREE MONTH PERIOD ENDED JUNE 30, 2013

NET RESOURCES PROVIDED BY OPERATING ACTIVITIES WERE PS. 809 MILLION FOR THE THREE MONTH PERIOD ENDED ON JUNE 30, 2014 COMPARED TO PS. 376 MILLION RECORDED IN THE SAME PERIOD OF YEAR 2013.

NET RESOURCES (USED IN) PROVIDED BY INVESTING ACTIVITIES WERE PS. (697) MILLION FOR THE THREE MONTH PERIOD ENDED ON JUNE 30, 2014 COMPARED TO PS. (410) MILLION RECORDED IN THE SAME PERIOD OF YEAR 2013. THESE FLOWS PRIMARILY REFLECT INVESTMENTS IN FIXED ASSETS OF PS. (697) MILLION AND PS. (410) MILLION, RESPECTIVELY.

NET RESOURCES (USED IN) PROVIDED BY FINANCING ACTIVITIES WERE PS. (146) MILLION AND PS. (28) MILLION FOR THE THREE MONTH PERIODS ENDED ON JUNE 30, 2014 AND 2013, RESPECTIVELY. FOR THE TWELVE MONTHS ENDED JUNE 30, 2014 COMPARED WITH TWELVE MONTHS ENDED JUNE 30, 2013

NET RESOURCES PROVIDED BY OPERATING ACTIVITIES WERE PS. 3,151 MILLION FOR THE TWELVE MONTH PERIOD ENDED ON JUNE 30, 2014 COMPARED TO PS. 1,998 MILLION RECORDED IN THE SAME PERIOD OF 2013.

NET RESOURCES (USED IN) PROVIDED BY INVESTING ACTIVITIES WERE PS. (2,706) MILLION FOR THE TWELVE MONTH PERIOD ENDED ON JUNE 30, 2014 COMPARED TO PS. 1,370 MILLION RECORDED IN THE SAME PERIOD OF YEAR 2013 DUE TO THE SALE OF THE TELECOMMUNICATION TOWERS IN JANUARY 2013. THESE FLOWS PRIMARILY REFLECT INVESTMENTS IN FIXED ASSETS OF PS. (2,711) MILLION AND PS. (1,776) MILLION, RESPECTIVELY.

NET RESOURCES (USED IN) PROVIDED BY FINANCING ACTIVITIES WERE PS. (398) MILLION AND PS. (3,343) MILLION FOR THE TWELVE MONTH PERIODS ENDED ON JUNE 30, 2014 AND 2013, RESPECTIVELY.

AS OF JUNE 30, 2014, THE RATIOS OF NET DEBT TO ADJUSTED EBITDA AND INTEREST COVERAGE OF THE COMPANY WERE 2.4X AND 3.8X, RESPECTIVELY. AS JUNE 30, 2013 THE RATIOS OF NET DEBT TO ADJUSTED EBITDA AND INTEREST COVERAGE, WERE 2.6X AND 2.6X, RESPECTIVELY.

SINCE THE BEGINNING OF OPERATIONS OF THE COMPANY, AXTEL HAS INVESTED APPROXIMATELY PS. 40 BILLION IN INFRASTRUCTURE. THE COMPANY EXPECTS TO DO MORE INVESTMENTS IN THE FUTURE, ACCORDING TO THE EXPANSION OF THE NETWORK IN OTHER GEOGRAPHICAL AREAS OF MEXICO IN ORDER TO GAIN MARKET AND TO MAINTAIN ITS CURRENT INFRASTRUCTURE AND NETWORK.

### OTHER IMPORTANT INFORMATION

- 1) WE ARE PRESENTING FINANCIAL INFORMATION BASED ON INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) IN NOMINAL PESOS FOR THE FOLLOWING PERIODS:
    - CONSOLIDATED INCOME STATEMENT INFORMATION FOR THE THREE MONTH PERIODS ENDING ON JUNE 30, 2014 AND 2013, AND MARCH 31, 2014; AND TWELVE MONTH PERIOD ENDING ON JUNE 30, 2014
-

# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: AXTEL

QUARTER: 02 YEAR: 2014

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

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

PAGE 7 / 8

CONSOLIDATED

Final Printing

---

AND 2013, AND

- BALANCE SHEET INFORMATION AS OF JUNE 30, 2014 AND 2013; AND MARCH 31, 2014.

2) REVENUES ARE DERIVED FROM:

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

II. LONG DISTANCE SERVICES. WE GENERATE REVENUES BY PROVIDING LONG DISTANCE SERVICES (DOMESTIC AND INTERNATIONAL COMPLETED CALLS).

III. INTERNET & VIDEO. WE GENERATE REVENUES BY PROVIDING "ON DEMAND" INTERNET ACCESS AND VIDEO (PAY-TV) SERVICES.

IV. DATA & NETWORK. WE GENERATE REVENUES BY PROVIDING DATA, DEDICATED INTERNET AND NETWORK SERVICES, LIKE VIRTUAL PRIVATE NETWORKS AND PRIVATE LINES, TO THE ENTERPRISE AND GOVERNMENT SEGMENTS.

V. INTEGRATED SERVICES & EQUIPMENT SALE. WE GENERATE REVENUES FROM MANAGED TELECOMMUNICATIONS SERVICES PROVIDED TO CORPORATE CUSTOMERS, FINANCIAL INSTITUTIONS AND GOVERNMENT ENTITIES AND THE SALE OF CUSTOMER PREMISES EQUIPMENT ("CPE") NECESSARY TO PROVIDE THESE SERVICES.

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

VII. OTHER SERVICES. INCLUDE, AMONG OTHERS, MEMBERSHIPS, LATE PAYMENT CHARGES, SPECTRUM, INTERCONNECTION, ACTIVATION AND WIRING AND PRESUBSCRIPTION.

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

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

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

6) EARNINGS PER CPO ARE CALCULATED DIVIDING THE NET INCOME BY THE AVERAGE NUMBER OF SERIES A AND SERIES B SHARES OUTSTANDING DURING THE PERIOD DIVIDED BY SEVEN. THE NUMBER OF OUTSTANDING SERIES A AND SERIES B SHARES WAS 97,750,656 AND 8,746,218,892, RESPECTIVELY, AS OF JUNE 30, 2014.

7) NET DEBT TO ADJUSTED EBITDA: THE FIGURE COMES FROM DIVIDING THE NET DEBT AT THE END OF THE PERIOD BY THE RESPECTIVE LTM ADJUSTED EBITDA.

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

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

10) SUBJECT TO MARKET CONDITIONS, THE COMPANY'S LIQUIDITY POSITION AND ITS CONTRACTUAL OBLIGATIONS, FROM TIME TO TIME, THE COMPANY MAY ACQUIRE ITS SENIOR SECURED AND UNSECURED NOTES IN THE OPEN MARKET OR IN PRIVATELY NEGOTIATED TRANSACTIONS.

ANALYST COVERAGE: THE ANALYSTS MENTIONED BELOW CURRENTLY COVER AXTEL S.A.B. DE C.V.

• ACTINVER CASA DE BOLSA

---

# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **02** YEAR: **2014**

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

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

PAGE 8 / 8

**CONSOLIDATED**

**Final Printing**

- 
- BANK OF AMERICA-MERRILL LYNCH
  - BBVA BANCOMER
  - BTG PACTUAL
  - CASA DE BOLSA BANORTE IXE, GRUPO FINANCIERO BANORTE
  - CREDIT SUISSE SECURITIES
  - GBM GRUPO BURSÁTIL MEXICANO
  - GOLDMAN, SACHS & CO.
  - ITAÚ BBA
  - SCOTIABANK INVERLAT

## ABOUT AXTEL

AXTEL IS A MEXICAN TELECOMMUNICATIONS COMPANY WITH A SIGNIFICANT GROWTH IN THE BROADBAND SEGMENT, AND ONE OF THE LEADING COMPANIES IN INFORMATION AND COMMUNICATION TECHNOLOGIES SOLUTIONS IN THE CORPORATE, FINANCIAL AND GOVERNMENT SECTORS. THE COMPANY SERVES ALL MARKET SEGMENTS -CORPORATE, FINANCIAL, GOVERNMENT, WHOLESALE AND RESIDENTIAL WITH THE MOST ROBUST OFFERING OF INTEGRATED COMMUNICATIONS SERVICES IN MEXICO. ITS WORLD-CLASS NETWORK CONSISTS OF DIFFERENT ACCESS TECHNOLOGIES LIKE FIBER OPTIC, FIXED WIRELESS ACCESS, POINT TO POINT AND POINT TO MULTIPOINT LINKS, IN ORDER TO OFFER SOLUTIONS TAILORED TO THE NEEDS OF ITS CUSTOMERS.

AXTELCPO TRADES ON THE MEXICAN STOCK EXCHANGE SINCE 2005. AXTEL'S AMERICAN DEPOSITARY SHARES ARE ELIGIBLE FOR TRADING IN THE PORTAL MARKET, A SUBSIDIARY OF THE NASDAQ STOCK MARKET, INC.

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

---

# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **02** YEAR: **2014**

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

**FINANCIAL STATEMENT NOTES**

PAGE 1 / 1

**CONSOLIDATED**

**Final Printing**

---

SEE THE ATTACHED FILE

---

# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **02** YEAR: **2014**

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

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

CONSOLIDATED

Final Printing

| COMPANY NAME                             | PRICIPAL ACTIVITY               | NUMBER OF SHARES | % OWNER SHIP | TOTAL AMOUNT     |               |
|--|---------------------------------|------------------|--------------|------------------|---------------|
|  |                                 |                  |              | ACQUISITION COST | CURRENT VALUE |
| CONECTIVIDAD INALAMBRICA 7GHZ S. DE R.L. | SERVICIOS DE TELECOMUNICACIONES | 2                | 50.00        | 24,497           | 8,426         |
| <b>TOTAL INVESTMENT IN ASSOCIATES</b>    |                                 |                  |              | 24,497           | 8,426         |

NOTES



# MEXICAN STOCK EXCHANGE

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

QUARTER: **02** YEAR: **2014**

## BREAKDOWN OF CREDITS (THOUSAND PESOS)

**CONSOLIDATED**  
**Final Printing**

| CREDIT TYPE / INSTITUTION  | FOREIGN INSTITUTION (YES/NO) | CONTRACT SIGNING DATE | EXPIRATION DATE | INTEREST RATE | MATURITY OR AMORTIZATION OF CREDITS IN NATIONAL CURRENCY |              |              |              |              |                      | MATURITY OR AMORTIZATION OF CREDITS IN FOREIGN CURRENCY |              |              |              |                |                      |
|--|------------------------------|-----------------------|-----------------|---------------|--|--------------|--------------|--------------|--------------|----------------------|---|--------------|--------------|--------------|----------------|----------------------|
|  |                              |                       |                 |               | TIME INTERVAL  |              |              |              |              |                      | TIME INTERVAL   |              |              |              |                |                      |
|  |                              |                       |                 |               | CURRENT YEAR   | UNTIL 1 YEAR | UNTIL 2 YEAR | UNTIL 3 YEAR | UNTIL 4 YEAR | UNTIL 5 YEAR OR MORE | CURRENT YEAR  | UNTIL 1 YEAR | UNTIL 2 YEAR | UNTIL 3 YEAR | UNTIL 4 YEAR   | UNTIL 5 YEAR OR MORE |
| STOCK MARKET   |                              |                       |                 |               |  |              |              |              |              |                      |   |              |              |              |                |                      |
| LISTED STOCK EXCHANGE  |                              |                       |                 |               |  |              |              |              |              |                      |   |              |              |              |                |                      |
| UNSECURED  |                              |                       |                 |               |  |              |              |              |              |                      |   |              |              |              |                |                      |
| SECURED  |                              |                       |                 |               |  |              |              |              |              |                      |   |              |              |              |                |                      |
| PRIVATE PLACEMENTS   |                              |                       |                 |               |  |              |              |              |              |                      |   |              |              |              |                |                      |
| UNSECURED  |                              |                       |                 |               |  |              |              |              |              |                      |   |              |              |              |                |                      |
| SENIOR NOTES 2017  | YES                          | 02/02/2007            | 01/02/2017      | 7.63          |  |              |              |              |              |                      | 0   | 0            | 0            | 0            | 656,802        | 0                    |
| SENIOR NOTES 2019  | YES                          | 22/09/2009            | 22/09/2019      | 9             |  |              |              |              |              |                      | 0   | 0            | 0            | 0            | 0              | 1,325,776            |
| SENIOR SECURED NOTES 2020  | YES                          | 31/01/2013            | 31/01/2020      | 7,8 y 9       |  |              |              |              |              |                      | 0   | 0            | 0            | 0            | 0              | 5,143,236            |
| CONVERTIBLE NOTES 2020   | YES                          | 31/01/2013            | 31/01/2020      | 7,8 Y 9       |  |              |              |              |              |                      | 0   | 0            | 0            | 0            | 0              | 169,126              |
| SECURED  |                              |                       |                 |               |  |              |              |              |              |                      |   |              |              |              |                |                      |
| <b>TOTAL STOCK MARKET LISTED IN STOCK EXCHANGE AND PRIVATE PLACEMENT</b> |                              |                       |                 |               |  | <b>0</b>     | <b>0</b>     | <b>0</b>     | <b>0</b>     | <b>0</b>             | <b>0</b>  | <b>0</b>     | <b>0</b>     | <b>0</b>     | <b>656,802</b> | <b>6,638,138</b>     |

MEXICAN STOCK EXCHANGE

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

QUARTER: **02** YEAR: **2014**

**BREAKDOWN OF CREDITS**  
 (THOUSAND PESOS)

**CONSOLIDATED**  
**Final Printing**

| CREDIT TYPE / INSTITUTION  | FOREIGN INSTITUTION (YES/NO) | DATE OF AGREEMENT | EXPIRATION DATE | MATURITY OR AMORTIZATION OF CREDITS IN NATIONAL CURRENCY |             |              |              |              |                      | MATURITY OR AMORTIZATION OF CREDITS IN FOREIGN CURRENCY |             |              |              |              |                      |
|--|------------------------------|-------------------|-----------------|--|-------------|--------------|--------------|--------------|----------------------|---|-------------|--------------|--------------|--------------|----------------------|
|  |                              |                   |                 | TIME INTERVAL  |             |              |              |              |                      | TIME INTERVAL   |             |              |              |              |                      |
|  |                              |                   |                 | CURRENT YEAR   | UNTIL 1YEAR | UNTIL 2 YEAR | UNTIL 3 YEAR | UNTIL 4 YEAR | UNTIL 5 YEAR OR MORE | CURRENT YEAR  | UNTIL 1YEAR | UNTIL 2 YEAR | UNTIL 3 YEAR | UNTIL 4 YEAR | UNTIL 5 YEAR OR MORE |
| <b>OTHER CURRENT AND NON-CURRENT LIABILITIES WITH COST</b>       |                              |                   |                 |  |             |              |              |              |                      |   |             |              |              |              |                      |
| OTROS PASIVOS CON COSTO  | NOT                          |                   |                 | 109,934  | 17,971      | 19,731       | 13,229       | 2,130        | 0                    |   |             |              |              |              |                      |
| OTROS PASIVOS CON COSTO  | NOT                          |                   |                 |  |             |              |              |              |                      | 63,299  | 69,853      | 132,307      | 116,562      | 43,941       | 1,776                |
| <b>TOTAL OTHER CURRENT AND NON-CURRENT LIABILITIES WITH COST</b> |                              |                   |                 | 109,934  | 17,971      | 19,731       | 13,229       | 2,130        | 0                    | 63,299  | 69,853      | 132,307      | 116,562      | 43,941       | 1,776                |
| <b>SUPPLIERS</b>   |                              |                   |                 |  |             |              |              |              |                      |   |             |              |              |              |                      |
| PROVEEDORES  | NOT                          |                   |                 | 2,335,734  | 0           |              |              |              |                      |   |             |              |              |              |                      |
| PROVEEDORES  | NOT                          |                   |                 |  |             |              |              |              |                      | 917,722   | 0           |              |              |              |                      |
| PROVEEDORES  | YES                          |                   |                 |  |             |              |              |              |                      | 122,925   | 0           |              |              |              |                      |
| <b>TOTAL SUPPLIERS</b>   |                              |                   |                 | 2,335,734  | 0           |              |              |              |                      | 1,040,647   | 0           |              |              |              |                      |
| <b>OTHER CURRENT AND NON-CURRENT LIABILITIES</b>                 |                              |                   |                 |  |             |              |              |              |                      |   |             |              |              |              |                      |
| OTROS PASIVOS  | NOT                          |                   |                 | 994  | 739,969     | 424,624      | 0            | 0            | 0                    |   |             |              |              |              |                      |
| OTROS PASIVOS  | NOT                          |                   |                 |  |             |              |              |              |                      | 320,276   | 35,286      | 4,183        | 0            | 0            | 0                    |
| <b>TOTAL OTHER CURRENT AND NON-CURRENT LIABILITIES</b>           |                              |                   |                 | 994  | 739,969     | 424,624      | 0            | 0            | 0                    | 320,276   | 35,286      | 4,183        | 0            | 0            | 0                    |
| <b>GENERAL TOTAL</b>   |                              |                   |                 | 2,576,662  | 757,940     | 444,355      | 13,229       | 2,130        | 0                    | 1,424,222   | 105,139     | 136,490      | 116,562      | 700,743      | 6,639,914            |

NOTES

# MEXICAN STOCK EXCHANGE

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

QUARTER: **02**      YEAR: **2014**

## MONETARY FOREIGN CURRENCY POSITION

**CONSOLIDATED**

(THOUSAND PESOS)

Final Printing

| FOREIGN CURRENCY POSITION<br>(THOUSANDS OF PESOS) | DOLLARS                 |                   | OTHER CURRENCIES        |                | THOUSAND PESOS<br>TOTAL |
|---|-------------------------|-------------------|-------------------------|----------------|-------------------------|
|   | THOUSANDS OF<br>DOLLARS | THOUSAND PESOS    | THOUSANDS OF<br>DOLLARS | THOUSAND PESOS |                         |
| <b>MONETARY ASSETS</b>                            | 50,650                  | 660,084           | 0                       | 0              | 660,084                 |
| CURRENT   | 50,650                  | 660,084           | 0                       | 0              | 660,084                 |
| NON CURRENT                                       | 0                       | 0                 | 0                       | 0              | 0                       |
| <b>LIABILITIES POSITION</b>                       | 700,036                 | 9,123,070         | 0                       | 0              | 9,123,070               |
| CURRENT   | 117,352                 | 1,529,361         | 0                       | 0              | 1,529,361               |
| NON CURRENT                                       | 582,684                 | 7,593,709         | 0                       | 0              | 7,593,709               |
| <b>NET BALANCE</b>                                | <b>-649,386</b>         | <b>-8,462,986</b> | <b>0</b>                | <b>0</b>       | <b>-8,462,986</b>       |

NOTES

# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **02** YEAR: **2014**

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

## DEBT INSTRUMENTS

PAGE 1 / 2

**CONSOLIDATED**

**Final Printing**

---

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

- AS OF JUNE 30, 2014 INDEBTEDNESS DUE IN FEBRUARY 2017 AND SEPTEMBER 2019 (SENIOR NOTES) DOES NOT CONTEMPLATE ANY MATERIAL COVENANTS FOR THE COMPANY

- IN TERMS OF THE INDEBTEDNESS ISSUED JANUARY AND DECEMBER, 2013 DUE JANUARY 2020 (SENIOR SECURED NOTES AND SENIOR SECURED CONVERTIBLE NOTES) REFERRED THE FOLLOWING COVENANTS:

- INDEBTEDNESS INCURRANCE, WHICH STATES NO ADDITIONAL DEBT IS ALLOWED IF THE COMPANY DOES NOT MAINTAIN TOTAL DEBT RATIO TO ADJUSTED EBITDA LESS THAN 4 TIMES

- TOTAL GUARANTEED DEBT EQUAL TO TOTAL DEBT ISSUED BY US\$ 414.9 MILLION

- SECURITY OVER ISSUED DEBT, IN THE FORM OF A LIEN OVER STOCK OF SUBSIDIARIES OF THE COMPANY, A PLEDGE OVER SHARES IN SUBSIDIARIES OF THE COMPANY, A MORTGAGE ON THE ENTIRE PROPERTY OWNED BY THE COMPANY, A MORTGAGE ON ALL TELECOM CONCESSIONS (AND RELATED EQUIPMENT TO THE SUPPLYING OF TELECOMMUNICATION SERVICES) AND A PLEDGE, WITHOUT THE TRANSMISSION OF OWNERSHIP ON THE ENTIRE TANGIBLE AND INTANGIBLE COMPANY PROPERTY OVER THOSE ASSETS NOT COVERED BY THE ABOVE LIENS (WITH A FEW EXCEPTIONS).

### CURRENT SITUATION OF FINANCIAL COVENANTS:

- THE COMPANY IS IN COMPLIANCE WITH ALL COVENANTS

---

# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **02** YEAR: **2014**

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

**DEBT INSTRUMENTS**

PAGE 2 / 2

**CONSOLIDATED**

**Final Printing**

---

## **ACTUAL SITUATION OF FINANCIAL LIMITED**

THE COMPANY IS IN COMPLIANCE WITH ALL COVENANTS

---

# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **02** YEAR: **2014**

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

## DISTRIBUTION OF REVENUE BY PRODUCT

**CONSOLIDATED**

**TOTAL INCOME  
(THOUSAND PESOS)**

Final Printing

| MAIN PRODUCTS OR PRODUCT LINE        | NET SALES |                  | MARKET SHARE (%) | MAIN       |           |
|--------------------------------------|-----------|------------------|------------------|------------|-----------|
|                                      | VOLUME    | AMOUNT           |                  | TRADEMARKS | CUSTOMERS |
| <b>NATIONAL INCOME</b>               |           |                  |                  |            |           |
| SERVICIOS LOCALES                    | 0         | 1,482,110        | 0.00             |            |           |
| SERVICIOS DE L.D.                    | 0         | 509,784          | 0                |            |           |
| INTERNET Y VIDEO                     | 0         | 645,300          | 0                |            |           |
| DATOS Y REDES                        | 0         | 938,199          | 0                |            |           |
| SERV INT Y VTA EQ                    | 0         | 1,188,184        | 0                |            |           |
| TRAFICO INTL.                        | 0         | 716,065          | 0                |            |           |
| OTROS SERVICIOS                      | 0         | 164,522          | 0                |            |           |
| <b>EXPORT INCOME</b>                 |           |                  |                  |            |           |
| <b>INCOME OF SUBSIDIARIES ABROAD</b> |           |                  |                  |            |           |
| <b>TOTAL</b>                         | <b>0</b>  | <b>5,644,164</b> |                  |            |           |

**NOTES**

MEXICAN STOCK EXCHANGE

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

QUARTER: 02 YEAR: 2014

ANALYSIS OF PAID CAPITAL STOCK  
 CHARACTERISTICS OF THE SHARES

CONSOLIDATED

Final Printing

| SERIES       | NOMINAL VALUE | VALID COUPON | NUMBER OF SHARES |                  |            |                   | CAPITAL STOCK |          |
|--------------|---------------|--------------|------------------|------------------|------------|-------------------|---------------|----------|
|              |               |              | FIXED PORTION    | VARIABLE PORTION | MEXICAN    | FREE SUBSCRIPTION | FIXED         | VARIABLE |
| A            | 0.00000       | 0            | 97,750,656       | 0                | 97,750,656 | 0                 | 73,396        | 0        |
| B            | 0.00000       | 0            | 8,704,411,170    | 0                | 0          | 8,704,411,170     | 6,577,829     | 0        |
| <b>TOTAL</b> |               |              | 8,802,161,826    | 0                | 97,750,656 | 8,704,411,170     | 6,651,225     | 0        |

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

8,802,161,826

NOTES

# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **02** YEAR: **2014**

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

**DERIVATIVE FINANCIAL INSTRUMENTS**

PAGE 1 / 2

**CONSOLIDATED**

**Final Printing**

---

AXTEL, S.A.B. DE C.V. REPORTS THEIR OPERATIONS WITH FINANCIAL DERIVATIVE INSTRUMENTS, COMPLEMENTARY TO THE 2ND QUARTER 2014 FINANCIAL INFORMATION REPORT: QUALITATIVE AND QUANTITATIVE INFORMATION:

## DERIVATIVES POLICY

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

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

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

DURING THE 2ND QUARTER 2014 NO HEDGE TRANSACTIONS WERE TRADED BY THE COMPANY, SO AT THE END OF THE 2ND QUARTER 2014 THE COMPANY HAS NO OPERATIONS OF DERIVATIVE FINANCIAL INSTRUMENTS OUTSTANDING.

## MARGIN CALLS, COLLATERAL AND CREDIT LINES.

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

## LEVELS OF AUTHORIZATION

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

## PROCEDURES OF INTERNAL CONTROL

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

---

# MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **02** YEAR: **2014**

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

**DERIVATIVE FINANCIAL INSTRUMENTS**

PAGE 2 / 2

**CONSOLIDATED**

**Final Printing**

---

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

#### EXTERNAL REVIEW

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

#### VALUATION TECHNIQUES

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

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

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

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

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

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

#### SOURCES OF LIQUIDITY.

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

THE COMPANY DOES NOT CURRENTLY HAVE LINES OF CREDIT FOR THIS TYPE OF INSTRUMENTS. THE RISKS THAT ARE IDENTIFIED ARE THE DECREASE OF THE EXCHANGE RATE FOR ALL THE DERIVATIVE INSTRUMENTS.

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

AS OF JUNE 30, 2014, THE COMPANY HAD NO DERIVATIVE INSTRUMENTS CONTRACTED: AT THE DATE OF FINANCIAL STATEMENTS, THERE IS REGISTERED \$105,459 AS A PASSIVE POSITION, TO RECOGNIZE THE EFFECT OF TERMS AND CLAUSES OF SENIOR SECURED CONVERTIBLE NOTES ISSUED IN JANUARY 2013, THAT HAVE FEATURES OF DERIVATIVES (EMBEDDED DERIVATIVES); IN ACCORDANCE WITH THE PROVISIONS OF IAS 39.

#### SENSIBILITY ANALYSIS:

NO SENSIBILITY TESTS WERE PERFORMED DUE TO THERE ARE NO DERIVATIVE FINANCIAL INSTRUMENTS OPERATIONS AT THE END OF THE 2ND QUARTER OF 2014.

---

**AXTEL, S.A.B. DE C.V. AND SUBSIDIARIES**  
Notes to the Condensed Consolidated Interim Financial Information  
As of June 30, 2014 and December 31, 2013 and for the  
Six-month period ended June 30, 2014 and 2013  
(Thousands of Mexican 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. 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 is 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 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 mentioned in the following paragraphs. 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 R.L. de C.V. (Avantel), on February 15, 2013 Axtel Capital merged into Avantel, 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 interim 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. This transaction was discounted through factoring during 2013. The total cost of this discount is P.s. 81,015 and is presented in interest expense caption as net finance cost in condensed consolidated interim statement of profit or loss and other comprehensive income.

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 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 American Depositary Shares (ADSs) or Certificados de Participación Ordinarios (CPOs) at any time after 120<sup>th</sup> 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.1,543,410 which is presented in net finance cost in result from the exchange of debt, net life in the accompanying condensed consolidated interim statements of comprehensive income.

**AXTEL, S.A.B. DE C.V. AND SUBSIDIARIES**  
Notes to the Condensed Consolidated Interim Financial Information  
(Thousands of Mexican pesos)

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 information**

The condensed consolidated interim financial information includes those of Axtel, and those of the entities over which it exercises control. The subsidiaries included in the condensed consolidated interim financial information are 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%              |
| Axes Data, S.A. de C.V. (“Axes Data”)                                  | Administrative services    | 100%              |
| Contacto IP, S.A. de C.V. (Contacto IP”)                               | 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%              |

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

**(4) Basis of accounting**

**a) Statement of compliance**

This interim financial information has been prepared in accordance with International Accounting Standards “IAS 34 *Interim Financial Reporting*”. It does not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to gain an understanding of the changes in the Company’s financial position and performance since the last annual consolidated financial statements as at and for the year ended on December 31, 2013.

This interim financial information was authorized for issue by the Company’s Executive Director of Administration on September 8, 2014.

**AXTEL, S.A.B. DE C.V. AND SUBSIDIARIES**  
Notes to the Condensed Consolidated Interim Financial Information  
(Thousands of Mexican pesos)

**b) Basis of measurement**

The information presented in the condensed consolidated interim financial information 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**

This condensed consolidated interim financial information is presented in Mexican pesos, which is the Company's functional currency. All financial information presented in pesos or "Ps." are to thousands Mexican pesos; likewise, references to dollars or U.S. \$ or USD are to thousands of dollars of the United States of America except when makes reference to million for both pesos and dollars.

**d) Judgements and estimates**

In preparing this interim financial information, management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended on December 31, 2013.

**(5) Financial instruments**

*Categories of financial instruments*

|  | <b>June 30,<br/><u>2014</u></b> | <b>December 31,<br/><u>2013</u></b> |
|--|---------------------------------|-------------------------------------|
| <i>Financial assets</i>                  |                                 |                                     |
| Cash and cash equivalents                | Ps. 794,739                     | 1,292,263                           |
| Accounts receivables                     | 3,714,694                       | 2,981,732                           |
| Financial instruments                    | <u>146,758</u>                  | <u>142,200</u>                      |
| <i>Financial liabilities</i>             |                                 |                                     |
| Derivative financial instruments         | Ps. 105,459                     | 116,658                             |
| Accrued interest                         | 321,270                         | 278,807                             |
| Short-term debt                          | 130,000                         | -                                   |
| Long-term debt                           | 7,885,673                       | 7,864,319                           |
| Accounts payable and accrued liabilities | <u>3,500,257</u>                | <u>2,741,308</u>                    |

**(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.

**AXTEL, S.A.B. DE C.V. AND SUBSIDIARIES**  
Notes to the Condensed Consolidated Interim Financial Information  
(Thousands of Mexican pesos)

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 June 30, 2014 and December 31, 2013 are as follows:

|                                   | <u>(Thousands of U.S. dollars)</u> |                                    |
|-----------------------------------|------------------------------------|------------------------------------|
|                                   | <u>June 30,</u><br><u>2014</u>     | <u>December 31,</u><br><u>2013</u> |
| Assets                            | 51,382                             | 68,719                             |
| Current liabilities               | (117,352)                          | (106,615)                          |
| Non-current liabilities           | <u>(582,684)</u>                   | <u>(574,480)</u>                   |
| Foreign currency liabilities, net | <u>(648,654)</u>                   | <u>(612,376)</u>                   |

The U.S. dollar exchange rates as of June 30, 2014 and December 31, 2013 were Ps. 13.03 and Ps. 13.07, respectively. As of September 8, 2014, the exchange rate was Ps. 13.09.

The Company's activities are exposed 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 for the year of 2013 and before by maintaining an appropriate mix between fixed and floating rate borrowings.

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 CCS**

During November 2011, the Company closed a syndicated loan of up to the equivalent of U.S.\$ 100 million. This loan is divided in two tranches, one in pesos amounting to Ps. 512,373 and the other in U.S. dollar amounting to U.S.\$ 62,117. As of December 31, 2012 U.S.\$ 53.3 million (equivalent to Ps. 693 million) and Ps. 365 million had been utilized, of which approximately Ps. 246 million remains unutilized as of December 31, 2012. 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.

**AXTEL, S.A.B. DE C.V. AND SUBSIDIARIES**  
Notes to the Condensed Consolidated Interim Financial Information  
(Thousands of Mexican pesos)

**(c) 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:

|   | <b>(Thousands of US dollars)</b> |                            |
|---|----------------------------------|----------------------------|
|   | <b><u>June 30,</u></b>           | <b><u>December 31,</u></b> |
|   | <b><u>2014</u></b>               | <b><u>2013</u></b>         |
| <b><u>Convertible notes - liability</u></b>                                     |                                  |                            |
| Face value  | 22,189                           | 22,189                     |
| Options converted   | (1,980)                          | (154)                      |
|   | <u>20,209</u>                    | <u>22,035</u>              |
| Fair value of conversion option recognized as a derivative financial instrument | (9,738)                          | (9,738)                    |
| Accrued interest  | <u>2,507</u>                     | <u>1,275</u>               |
| Carrying amount of convertible notes  | <u>12,978</u>                    | <u>13,572</u>              |
|   |                                  |                            |
|   | <b>(Thousands of US dollars)</b> |                            |
|   | <b><u>June 30,</u></b>           | <b><u>December 31,</u></b> |
|   | <b><u>2014</u></b>               | <b><u>2013</u></b>         |
| <b><u>Convertible notes - derivative financial instrument</u></b>               |                                  |                            |
| Fair value of conversion option at initial balance                              | 8,921                            | 9,738                      |
| Gain in change of fair value for the period                                     | (829)                            | (817)                      |
| Fair value of conversion option   | <u>8,092</u>                     | <u>8,921</u>               |

**AXTEL, S.A.B. DE C.V. AND SUBSIDIARIES**  
Notes to the Condensed Consolidated Interim Financial Information  
(Thousands of Mexican pesos)

**(d) 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 a total number of 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:

| <u>Counterparty</u> | <u>Notional amount</u> | <u>Terms</u>   | <u>Fair value Asset</u> |                          |
|---------------------|------------------------|--|-------------------------|--------------------------|
|                     |                        |  | <u>June 30, 2014</u>    | <u>December 31, 2013</u> |
| Bank of America     |                        | Receives in cash the market value of the notional amount | Ps. 146,758             | 142,200                  |
| Merrill Lynch       | 30,384,700 CPOs        |  |                         |                          |

For the six month period ended June 30, 2014 and 2013 the change in the fair value of the Zero Strike Calls resulted in an unrealized gain of Ps. 4,558 and Ps. 47,704, respectively, recognized in the fair value loss on financial instruments, net, line item.

**(e) 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 and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management 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.

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.

**(f) 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.

**AXTEL, S.A.B. DE C.V. AND SUBSIDIARIES**  
Notes to the Condensed Consolidated Interim Financial Information  
(Thousands of Mexican pesos)

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, and by matching the maturity profiles of financial assets and liabilities.

**(g) Fair value measurements recognized in the condensed consolidated interim statements 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* quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2* inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly. (i.e. derived from prices).
- *Level 3* inputs for the asset or liability that are not based on observable market data. (unobservable inputs)

|                                  |     | <b>June 30, 2014</b>     |                |                |                |
|----------------------------------|-----|--------------------------|----------------|----------------|----------------|
|                                  |     | <b>Level 1</b>           | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>   |
| <i>Financial assets</i>          |     |                          |                |                |                |
| Zero strike calls                | Ps. | <u>146,758</u>           | -              | -              | <u>146,758</u> |
| <i>Financial liabilities</i>     |     |                          |                |                |                |
| Derivative financial instruments | Ps. | -                        | <u>105,459</u> | -              | <u>105,459</u> |
|                                  |     | <b>December 31, 2013</b> |                |                |                |
|                                  |     | <b>Level 1</b>           | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>   |
| <i>Financial assets</i>          |     |                          |                |                |                |
| Zero strike calls                | Ps. | <u>142,200</u>           | -              | -              | <u>142,200</u> |
| <i>Financial liabilities</i>     |     |                          |                |                |                |
| Derivative financial liabilities | Ps. | -                        | <u>116,658</u> | -              | <u>116,658</u> |

**AXTEL, S.A.B. DE C.V. AND SUBSIDIARIES**  
Notes to the Condensed Consolidated Interim Financial Information  
(Thousands of Mexican pesos)

**(6) Accounts receivable**

Accounts receivable consist of the following:

|                                      |     | <b>June<br/>30, 2014</b> | <b>December<br/>31, 2013</b> |
|--------------------------------------|-----|--------------------------|------------------------------|
| Trade accounts receivable            | Ps. | 6,209,654                | 5,388,862                    |
| Less allowance for doubtful accounts |     | <u>2,494,960</u>         | <u>2,407,130</u>             |
| Trade accounts receivable, net       | Ps. | <u>3,714,694</u>         | <u>2,981,732</u>             |

Given their short-term nature the carrying value of trade accounts receivable approximates its fair value as of June 30, 2014 and December 31, 2013.

Movement in the allowance for doubtful accounts:

|                          |     | <b>June<br/>30, 2014</b> | <b>December<br/>31, 2013</b> |
|--------------------------|-----|--------------------------|------------------------------|
| Opening balance          | Ps. | 2,407,130                | 2,207,537                    |
| Allowance for the period |     | 87,876                   | 199,524                      |
| Effect of exchange rate  |     | <u>(46)</u>              | <u>69</u>                    |
| Balances at period end   | Ps. | <u>2,494,960</u>         | <u>2,407,130</u>             |

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.

**(7) Property, systems and equipment**

Property, systems and equipment are as follows:

|   |    | <b>Land and<br/>Building</b> | <b>Computer<br/>and<br/>electronic<br/>equipment</b> | <b>Transportation<br/>equipment</b> | <b>Furniture and<br/>fixtures</b> | <b>Network<br/>equipment</b> | <b>Leasehold<br/>improvements</b> | <b>Construction<br/>in progress</b> | <b>Total</b>      |
|---|----|------------------------------|--|-------------------------------------|-----------------------------------|------------------------------|-----------------------------------|-------------------------------------|-------------------|
| Balance as of<br>January 1, 2013              | Ps | 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<br>projects in progress |    | -                            | 105,617  | 988                                 | 19,903                            | 2,004,020                    | 4,465                             | (2,134,993)                         | -                 |
| Transfer to assets held<br>for sale           |    | -                            | -  | -                                   | -                                 | 240,451                      | -                                 | -                                   | 240,451           |
| Disposals                                     |    | -                            | -  | (32,987)                            | (76)                              | (78,787)                     | -                                 | -                                   | (111,850)         |
| Balance as of<br>December 31, 2013            |    | 430,990                      | 3,382,097  | 387,713                             | 241,069                           | 32,417,894                   | 429,612                           | 858,696                             | 38,148,071        |
| Additions                                     |    | -                            | 152,509  | 2,587                               | 6                                 | 254,471                      | -                                 | 1,122,746                           | 1,532,319         |
| Transfer of completed<br>projects in progress |    | -                            | 51,931   | 3,152                               | 10,886                            | 704,568                      | 297                               | (770,834)                           | -                 |
| Disposals                                     |    | -                            | (1,795)  | (11,747)                            | -                                 | (4,394)                      | -                                 | -                                   | (17,936)          |
| Balance as of<br>June 30, 2014                | Ps | <u>430,990</u>               | <u>3,584,742</u>                                     | <u>381,705</u>                      | <u>251,961</u>                    | <u>33,372,539</u>            | <u>429,909</u>                    | <u>1,210,608</u>                    | <u>39,662,454</u> |

**AXTEL, S.A.B. DE C.V. AND SUBSIDIARIES**  
Notes to the Condensed Consolidated Interim Financial Information  
(Thousands of Mexican pesos)

| 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, 2013                             | Ps | 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  |
| Transfer to assets held for sale                          |    | -                 | -                                 | -                        | -                      | 184,955           | -                      | -                        | 184,955    |
| Disposals   |    | -                 | -                                 | (31,752)                 | -                      | (14,385)          | -                      | -                        | (46,137)   |
| Balance as of December 31, 2013                           |    | 136,084           | 1,359,352                         | 321,494                  | 178,269                | 22,637,701        | 327,984                | -                        | 24,960,884 |
| Depreciation of the year                                  |    | 7,142             | 60,618                            | 24,509                   | 8,458                  | 1,544,994         | 12,869                 | -                        | 1,658,590  |
| Disposals   |    | -                 | (1,765)                           | (11,314)                 | -                      | (3,784)           | -                      | -                        | (16,863)   |
| Balance as of June 30, 2014                               | Ps | 143,226           | 1,418,205                         | 334,689                  | 186,727                | 24,178,911        | 340,853                | -                        | 26,602,611 |
| 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 |
| Property, systems and equipment, net at June 30, 2014     | Ps | 287,764           | 2,166,537                         | 47,016                   | 65,234                 | 9,193,628         | 89,056                 | 1,210,608                | 13,059,843 |

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

**(8) Long-term debt**

Long-term debt as of June 30, 2014 and December 31, 2013 consist of the following:

|   | <u>2014</u>         | <u>2013</u>      |
|---|---------------------|------------------|
| U.S. \$275 million in aggregate principal amount of 7 <sup>5</sup> / <sub>8</sub> % Senior Unsecured Notes due in 2017. Interest is payable semiannually on February 1 and August 1 of each year. During January and December 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.\$ 359 and U.S.\$ 22 million dollars on an insured bond and a convertible bond. | Ps 656,802          | 659,029          |
| U.S.\$ 490 million in aggregate principal amount of 9% Senior Unsecured Notes due in 2019. Interest is payable semiannually on March and September of each year. During January and December 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.\$ 359 and U.S.\$ 22 million dollars on an insured bond and a convertible bond.                                   | 1,325,776           | 1,330,272        |
| 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.  | <u>5,143,236</u>    | <u>5,160,680</u> |
| Sub-total to next page  | Ps <u>7,125,814</u> | <u>7,149,981</u> |

**AXTEL, S.A.B. DE C.V. AND SUBSIDIARIES**  
Notes to the Condensed Consolidated Interim Financial Information  
(Thousands of Mexican pesos)

|  |    |                         |                         |
|--|----|-------------------------|-------------------------|
| Sub-total from prior page  | Ps | 7,125,814               | 7,149,981               |
| 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 (See note 5c). |    | 169,127                 | 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.  |    | (26,611)                | (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.   |    | 6,796                   | 7,444                   |
| 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 with a new due date in December 2014 of approximately Ps. 484,000 payable monthly.                            |    | 86,673                  | 168,554                 |
| Finance leases with several institutions with interest rates between 6% and 10% for those denominated in dollars, and TIIE (Mexican average interbank rate) plus 3 and 5.5 percentage points for those denominating in pesos, due between 2015 and 2019.           |    | 540,171                 | 407,965                 |
| Deferred financing costs   |    | <u>(16,297)</u>         | <u>(18,112)</u>         |
| Total long-term debt   |    | 7,885,673               | 7,864,319               |
| Less current maturities  |    | <u>261,057</u>          | <u>308,945</u>          |
| Long-term debt, excluding current maturities   | Ps | <u><u>7,624,616</u></u> | <u><u>7,555,374</u></u> |

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.

On December 18, 2013 the Company entered into a revolving credit facility, whereby a dispose was received of Ps. 130 million on March 28, 2014. This credit facility bears quarterly interest payments according to a Mexican average interbank rate (TIIE). As of September 8, 2014 this loan is pending of paid.

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. 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.

**AXTEL, S.A.B. DE C.V. AND SUBSIDIARIES**  
Notes to the Condensed Consolidated Interim Financial Information  
(Thousands of Mexican pesos)

On 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. 1,543,410 which is presented in result from the exchange of debt net line in the accompanying condensed consolidated interim statements of comprehensive income.

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

Certain debt agreements establish financial, affirmative and negative covenants, the most significant of which refer to limitations on dividend payments and the compliance with certain financial ratios. As of June 30, 2014 and September 8, 2014, the Company was in compliance with all covenants contained in its debt agreement.

**(9) Transactions and balances with related parties**

The transactions with related parties during the six month period ended June 30, 2014 and 2013 are as follows:

|                                    | <u>2014</u> | <u>2013</u> |
|------------------------------------|-------------|-------------|
| Banamex:                           |             |             |
| Telecommunication service revenues | Ps. 286,897 | 279,049     |
| Interest expense                   | 2,481       | 17,208      |
| Other related parties:             |             |             |
| Rent expense                       | Ps. 17,853  | 16,700      |
| Installation service expense       | 15,817      | 16,312      |
| Other                              | 4,229       | 1,090       |

The balances with related parties as of June 30, 2014 and December 31, 2013, included in accounts payable are as follows:

|  | <u>2014</u> | <u>2013</u> |
|--|-------------|-------------|
| <b>Accounts payable short-term:</b>  |             |             |
| GEN Industrial, S.A. de C.V. <sup>(2)</sup>                                  | Ps. 11      | 58          |
| Neoris de México, S.A. de C.V. <sup>(2)</sup>                                | 873         | -           |
| Instalaciones y Desconexiones<br>Especializadas, S.A. de C.V. <sup>(2)</sup> | 2,347       | -           |
| Total  | Ps. 3,231   | 58          |

These accounts payable are presented into accounts payable and accrued liabilities caption in the condensed consolidated interim statements of financial position.

**AXTEL, S.A.B. DE C.V. AND SUBSIDIARIES**  
Notes to the Condensed Consolidated Interim Financial Information  
(Thousands of Mexican pesos)

The balances with related parties as of June 30, 2014 and December 31, 2013, included in deferred revenues are as follows:

|   | <u>2014</u>        | <u>2013</u>    |
|---|--------------------|----------------|
| <b>Deferred revenues short-term:</b>          |                    |                |
| Banco Nacional de México, S.A. <sup>(1)</sup> | Ps. <u>463,351</u> | <u>457,478</u> |
| <b>Deferred revenues long-term:</b>           |                    |                |
| Banco Nacional de México, S.A. <sup>(1)</sup> | Ps. <u>33,900</u>  | <u>33,900</u>  |

<sup>(1)</sup> 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.

<sup>(2)</sup> Mainly rents and other administrative services.

**(10) Income tax (IT)**

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 benefit (expense) during the six month period ended June 30, 2014 and 2013 are as follows:

|                              | <u>2014</u>        | <u>2013</u>        |
|------------------------------|--------------------|--------------------|
| Current income tax           | Ps. (11,051)       | (23,506)           |
| Deferred income tax          | <u>159,338</u>     | <u>(1,105,106)</u> |
| Income tax benefit (expense) | Ps. <u>148,287</u> | <u>(1,128,612)</u> |

The Company's consolidated effective income tax rate in respect of continuing operations for the six months period ended June 30, 2014 was 25%.

**(11) Stockholders' equity**

The main characteristics of stockholders' equity are described below:

**(a) Capital stock structure**

As of June 30, 2014, the common stock of the Company is Ps. 6,651,225. The Company has 8,843,969,548 shares issued and outstanding. Company's shares are divided in two classes, Class "I" which represent the fixed minimum portion of the capital stock, and Class "II" which represent the variable portion of the capital stock. The shares that belong to both Class "I" and Class "II" provide to its holders the same economic and corporate rights (with the only difference of those rights that may be conferred under applicable law to holders of shares that form part of the variable portion of a *Sociedad Anónima Bursátil de Capital Variable*). Each of the Classes have two Series: Series "A" and "B"; both Series are indistinct and provide the same corporate and economic rights to its holders. All of the shares issued by the Company have no par value. Of the total shares issued and outstanding, 97,750,656 are Class "I" Series A and 8,746,218,892 are Class "I" Series B. At June 30, 2014 the Company has not issued any Class "II" shares (neither Series "A" nor Series "B"). As of this date, significantly all of the Series "B" Shares issued by the Company are deposited in a trust (the "CPOs Trust").

**AXTEL, S.A.B. DE C.V. AND SUBSIDIARIES**  
Notes to the Condensed Consolidated Interim Financial Information  
(Thousands of Mexican pesos)

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 second quarter of 2014 the conversion option was exercised for a total of 16,868,285 Series B shares representing an increase of Ps. 5,807 in the capital stock of the Company.

During the first quarter of 2014 the conversion option was exercised for a total of 50,909,061 Series B shares representing an increase of Ps. 17,528 in the capital stock of the Company.

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. 383, representing 1,114,029 Series "A", was received.

**(12) Commitments and contingencies**

As of June 30, 2014, 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.

**AXTEL, S.A.B. DE C.V. AND SUBSIDIARIES**  
Notes to the Condensed Consolidated Interim Financial Information  
(Thousands of Mexican pesos)

- (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 former Cofetel*) (“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 20<sup>th</sup>, 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 June 30, 2014, 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. 2,217 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.

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

Notes to the Condensed Consolidated Interim Financial Information  
(Thousands of Mexican pesos)

- (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 June 30, 2014, 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 April 2014, the Upper Chamber of the Federal Court of Tax and Administrative Justice (*Sala Superior del Tribunal Federal de Justicia Fiscal y Administrativa*), ruled on the annulment trial started by Telmex, in which the validity of the administrative resolution that was being disputed was confirmed in favor of Axtel.

Telmex filed a direct *amparo* suit against the ruling issued within the annulment trial, which shall be resolved by the Federal Collegiate District Court in Administrative Matters Specialized in Unfair Competition, Broadcasting and Telecommunications (*Tribunal Colegiado de Circuito en Materia Administrativa Especializado en Competencia Económica, Radiodifusión y Telecomunicaciones*).

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 in the evidence 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 pending for resolution.

**AXTEL, S.A.B. DE C.V. AND SUBSIDIARIES**  
Notes to the Condensed Consolidated Interim Financial Information  
(Thousands of Mexican pesos)

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 go from \$0.02780 to \$0.00968, depending if it is a regional or national node; and for year 2014, tariffs 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 June 30, 2014, 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.

- (d) 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.
- (e) 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. 6,852 and to other service providers amounting to Ps. 806,959.

**(13) Subsequent Events**

- (a) On August 19, 2014, the Company drew-down Ps. 130 million and Ps. 200 million from the receivables-secured revolving credit facilities maintained with Banco Monex, S.A., Institución de Banca Múltiple, Monex Grupo Financiero, and Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte, respectively. These facilities are secured by the accounts receivables of customers of Axtel and its subsidiaries having a value not to exceed the value of the accounts receivables represented by the 50 largest customers of the Company (measured by invoicing value for the immediately preceding two fiscal quarters). These two credit facilities bear quarterly interest payments according to a leverage-based interest-margin grid, and any amounts outstanding as of the date of its first principal amortization on March 31, 2015, is converted into a term-loan payable in nine equal quarterly amortizations starting on March 31, 2015 and ending on March 31, 2017.
- (b) On July 14, 2014, it was published in Mexico's Official Journal (*Diario Oficial de la Federación*) the new Federal Telecommunications and Broadcasting Law (the "**LFTyR**"), which entered into force on August 13, 2014. In terms of the LFTyR, and since it was effective, the previous Federal Telecommunications Law and the Federal Radio and Television Law ceased to be effective, and likewise, it was also provided by the same, that all regulations and administrative provisions in such matter which were previously issued, will remain in full force and effect except in what they oppose to the new LFTyR. In accordance with the new LFTyR, there were established new legal obligations for the Company in the field of telecommunications, including the following obligations with respect to:
  - (a) New rights applicable to users in general, as well as for users with disabilities.
  - (b) Collaboration with the Justice.

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

Notes to the Condensed Consolidated Interim Financial Information  
(Thousands of Mexican pesos)

- (c) Registration and reporting activities in connection with its active and passive infrastructure. of installation and operation of its public telecommunications network, including the obligation to avoid charges for domestic long distance calls since January 1, 2015, in the field of advertising, and of neutrality of networks in connection with its service of internet access.

Some of these obligations are pending the issuance of the applicable regulations, or that certain date is met or that the Company is in the situation prescribed by the applicable law.

The company took the required actions and controls in order to be in compliance with all the obligations that were born with the entry into force and effect of the LFTyR, and is carrying out the necessary actions in order to comply with the new obligations that are still pending on the issuance of the applicable secondary regulation and/or of the fulfillment of the applicable deadlines.