2007 ANNUAL REPORT

axtel

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OUR COMPANY

AXTEL IS MEXICO'S SECOND LARGEST FIXED-LINE INTEGRATED TELECOMMUNICATIONS COMPANY, AS WELL AS ONE OF THE LEADING VIRTUAL PRIVATE NETWORK OPERATORS IN THE COUNTRY.

AXTEL provides integrated telecommunications services to all sectors, from major corporations, financial institutions and government entities to residential customers, micro, small and medium-size businesses, in 27 of the most important cities in Mexico.

AXTEL offers these services through diverse access technologies, including fixed wireless access, WiMAX, copper wire connectivity, point-to-point and point-to-multipoint radio links, and fiber optic links, among others. The various technological solutions are utilized depending on our customers' specific communication requirements.

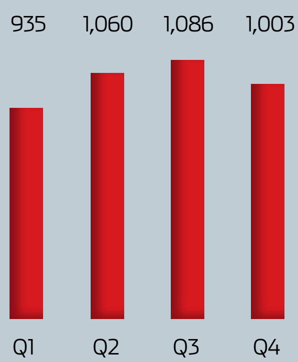
AXTEL's services include advanced solutions for voice and data transmission, web hosting, data security, virtual private networks (VPNs) and a complete range of Internet services, among others. Its value-added Internet Protocol (IP) -based technological solutions make possible the convergence of voice, data and image services.

AXTEL is a public company listed on the Mexican Stock Exchange (BMV), recently incorporated to the BMV's Price Index (IPC) due to its significant activity achieved in 2007. Axtel operates under the ticker symbol "AXTELCPO".

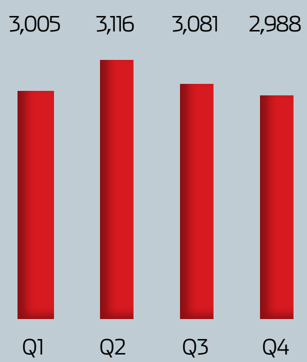
FINANCIAL HIGHLIGHTS

RESULTS (Millions of constant Mexican Pesos as of December 31, 2007)	**2007**	2006
Revenues	**12,191**	6,676
Operating Income	**1,394**	751
Net Income	**491**	222
FINANCIAL POSITION (Millions of constant Mexican Pesos as of December 31, 2007)		
Total Assets	**19,831**	19,894
Total Debt	**7,757**	8,474
Stockholders' Equity	**8,750**	7,884
OPERATING CASH FLOW (Millions of constant Mexican Pesos as of December 31, 2007)		
Adjusted EBITDA	**4,084**	2,311
INDICATORS		
EBITDA / Revenues	**34%**	35%
Operating Income / Revenues	**11%**	11%
Net Income / Revenues	**4%**	3%
Interest Coverage	**5.2x**	4.3x
Liabilities / Stockholders' Equity	**1.3x**	1.5x
EMPLOYEES	**6,872**	5,656

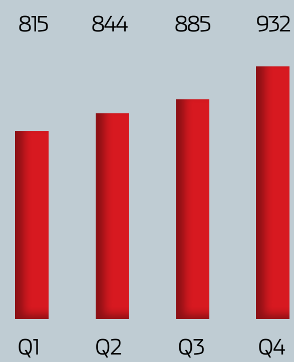
EBITDA PER QUARTER
(Millions of constant Mexican Pesos)



REVENUES PER QUARTER
(Millions of constant Mexican Pesos)



LINES IN SERVICE
(Thousands)



TO OUR SHAREHOLDERS

Tomas Milmo Santos
Chairman of the Board of Directors and Chief Executive Officer of AXTEL

I AM PLEASED TO INFORM YOU THAT AXTEL CONTINUED WITH ITS POSITIVE EVOLUTION DURING 2007 WHERE OUR MAIN FINANCIAL INDICATORS REACHED RECORD LEVELS AND STRENGTHENED OUR COMPETITIVE POSITION AS ONE OF THE LEADING COMPANIES IN THE MEXICAN TELECOMMUNICATIONS INDUSTRY.

THE ONGOING EFFORTS AND COMMITMENT OF OUR PERSONNEL ENABLED US TO CONSOLIDATE OUR BUSINESS STRATEGIES, WHICH ARE FOCUSED ON PROFITABLE GROWTH THROUGH EFFICIENT OPERATIONS, AN ORDERLY EXPANSION OF OUR GEOGRAPHICAL COVERAGE, A SOLID FINANCIAL POSITION AND A BROADER PORTFOLIO OF INTEGRATED SERVICES TO SATISFY OUR CUSTOMER´S DYNAMIC NEEDS AND EXPECTATIONS.

In our constant quest to identify the best opportunities to create value for our shareholders, in 2007, ahead of schedule, we successfully integrated the operations of Avantel. This enabled us to establish a homogeneous operating and service model, enrich our human capital, grow our share in the different markets we serve and capitalize on the synergies resulting from the complementary elements of the two companies.

In addition to these strategies, we continued with our organic growth by initiating operations in ten new cities and expanding our coverage in the 17 cities where we already had a presence, investing approximately 2,486 million pesos in assets and infrastructure.

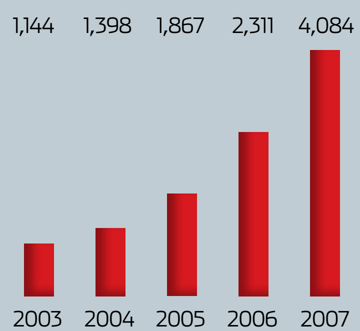
Our outstanding operating performance and constant innovation in high value-added products and services represent an exceptional platform for our further development. In 2007, these aspects were key to achieve revenues of 12,191 million pesos, an outstanding 83% increase year-over-year.

In this context, the adjusted EBITDA or operating cash flow reached 4,084 million pesos, which represented a 77% increase versus 2006, while net income grew 121% over the previous year to 491 million pesos or 0.39 pesos per CPO.

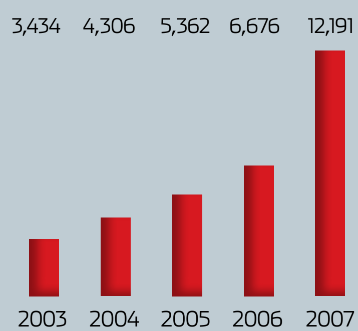
Our capacity to generate operating cash flow contributed to the strengthening of our financial position during the year, improving the ratio of net debt to adjusted EBITDA, or operating cash flow, from 3.1 times in 2006 to 1.5 times in 2007.

The financial strength that AXTEL has achieved year after year, combined with the organization's promising future, is reflected in increased interest for our shares (AXTELCPO). Our stock moved up from 37th to 22nd place among the most active issuers in the Mexican Stock Exchange during 2007, and as of 2008, becoming part of the IPC Index (BMV's Price Index). This is most certainly a vote of confidence from the investors towards our business strategy and performance.

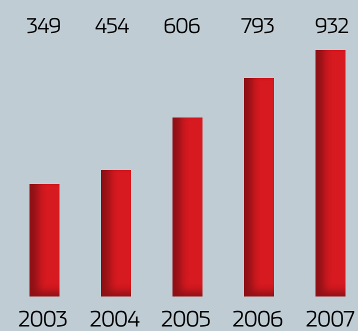
EBITDA
(Millions of constant Mexican Pesos)



REVENUES
(Millions of constant Mexican Pesos)



LINES IN SERVICE
(Thousands)



In 2008, we will continue to capitalize on AXTEL's new scale and capacity, working with increasingly integrated and efficient operating processes, a world-class service model and an unvarying quality orientation, all within a framework of profitable growth and financial soundness.

The company's solid position in the different business segments is based on a constant organic growth, which, as part of our strategic business plan, focuses on expansion into new markets and a continuous enhancement of the quality of our services, while maintaining improving revenue and profitability growth rates.

During 2007, lines in service continued to grow, with an 18% increase, which translates into a total of 932 thousand lines in service. The number of Internet subscribers reached 109 thousand, with a 29% increase in the number of broadband subscribers year-over-year.

We also concluded several strategic actions to help robust our access solutions, complement our transport network and consolidate our position as one of the leading participants in the convergence process.

Within these actions, we signed an agreement with Motorola Inc., which will allow us to integrate WiMAX technology into AXTEL's Network. This technology is designed to deliver fix, portable and mobile voice and data solutions based on IP Internet protocols, positioning AXTEL in the forefront of the technological evolution in Mexico.

Other action taken was the signing of the agreement with the Mexican Federal Electricity Commission (CFE) to provide private line and data services in the country. This agreement made us the first major telecommunications company in Mexico with the option to rent this vast fiber optic network.

In 2008, we will continue to capitalize on AXTEL's new scale and capabilities, operating under even more efficient processes, a world-class service model and an unvarying quality orientation, all within the profitable growth and financial strength framework that has always characterized our company.

Our growth plans include important capital expenditures , as well as expanding into new cities, with the goal to provide comprehensive local and data services in close to 40 cities in the next 12 months, reinforcing our presence and positioning in Mexico.

A fundamental part of our long-term vision is to continue with initiatives to develop our human capital. Our people are the main focus of the continuous improvement, quality and customer service strategies that, together with the development of state-of-the-art infrastructure, will be the cornerstone of our sustained growth as we move forward.

The progress we have made would have no meaning if it were not accompanied by an ongoing commitment to contribute to the integral development of our community. In this sense, in 2007 the AXTEL Foundation implemented a series of programs to promote human growth through education and showed significant results from our people's efforts in the company's nationwide Volunteer Work Program.

The extensive range of corporate social responsibility initiatives that AXTEL have implemented to promote community well-being was recognized by our certification as a Socially Responsible Company, an award given by the Mexican Center for Philanthropy (CEMEFI). This distinction acknowledges performance in areas such as environmental protection, corporate ethics, community support and quality of life inside the company.

I would like to give special recognition to all employees because their commitment and dedication have made possible the positive evolution of our organization.

On behalf of the Board of Directors of AXTEL, I would like to thank you for your trust and support, and to reiterate our commitment to a continuous search to perfect our business model to make us a more efficient and professional company with the financial flexibility to capitalize on new opportunities for profitable growth.

Thank you.

Tomas Milmo Santos
Chairman of the Board of Directors
and Chief Executive Officer of AXTEL

MASS AND BUSINESS MARKET

2007 WAS A KEY YEAR FOR THE RESIDENTIAL AND BUSINESS SEGMENTS, DERIVED FROM THE COMMERCIAL AND OPERATING BENEFITS RESULTING FROM THE MERGER OF AVANTEL INTO AXTEL.

DURING THE YEAR, WE CONSOLIDATED OUR PRODUCT AND SERVICES PORTFOLIO, ONE OF THE MOST COMPREHENSIVE AND SOLID SELECTIONS OF TELECOMMUNICATIONS OFFERINGS IN THE COUNTRY. OUR PORTFOLIO INCLUDES SERVICES FOR VOICE AND DATA, EQUIPMENT, IP SERVICES, NETWORK MONITORING AND SECURITY, AS WELL AS INTEGRATED SERVICES AND CALL CENTER OUTSOURCING AMONG OTHERS.

Additionally, we reorganized our operations into four regions (Mexico City, North, West and South) in order to cover the entire country more effectively. Our new regional structure was an important factor in the successful implementation of our geographic expansion in an orderly and coordinated manner. We began operations in ten additional cities, four more cities than originally planned.

The ten new cities are Ciudad Victoria, Reynosa and Tampico, Tamaulipas; Cuernavaca, Morelos; Merida, Yucatan; Morelia, Michoacan; Pachuca, Hidalgo; Hermosillo, Sonora; San Juan del Rio, Queretaro; and Xalapa, Veracruz.

We also opened 23 Personalized Attention Modules (MAPs), for the acquisition of services, customer service matters and payment receptions; one for each of the new cities and the rest in areas where the company already had presence. The 23 new MAPs represented a significant growth compared to the 34 MAPs that we had at the end of 2006.

During the year, we optimized resources and became more effective in generating sales by aligning our advertising and commercial efforts, both at brand awareness level and through nationwide and local promotion initiatives and tactics adapted to the needs of each particular region.

In August of 2007, we made a soft launch of our WiMAX technology initiative in Monterrey, Puebla and Guadalajara, paving the way for the deployment in the other cities where AXTEL offers its services.

It is important to note that the positive results posted in 2007 were achieved in a very competitive market environment, where in addition to the incumbent, new entrants begun competing with their own residential and small businesses telecommunications offerings.

With an enhanced technological and commercial offering, AXTEL is ready to continue to consolidate its position as the second largest integrated telephony and data telecommunications company in Mexico. AXTEL is also preparing the way for the provision of “quadruple play” services in the country.

10

Additional cities operating in the Country

23

More Personalized Attention Modules (MAPs)

WiMAX

Soft launch in Monterrey, Mexico and Guadalajara

We optimized resources and were highly effective in generating sales by aligning our advertising and commercial efforts, both at the brand level and in national and local.

STRATEGIC ACCOUNTS

DURING 2007, OUR COMPANY CREATED THE STRATEGIC ACCOUNTS DEPARTMENT, THROUGH WHICH WE HAVE CONSOLIDATED OUR INTEGRATED TELECOMMUNICATION SERVICES FOR THE CORPORATE SEGMENT AND GOVERNMENT AND FINANCIAL SECTORS.

THROUGH THIS EFFORT, AXTEL HAS BEEN ABLE TO IMPROVE THE FOCUS OF ITS SPECIALIZED SERVICE IN A MARKET CHARACTERIZED BY COMPLEX AND HIGHLY DEMANDING NEEDS.

AXTEL has a significant presence in this segment, particularly in the financial and government sectors, where we provide telecommunications services for some of Mexico's leading banks and some of the most important government ministries.

In the Strategic Accounts Department, we have successfully combined the strengths that resulted from the integration of the portfolios of Avantel and AXTEL. This was reflected during the year in a significant increase in Data and Network revenues coming from 7% of AXTEL's total revenues in 2006 to 21% in 2007.

In December, we publicly announced the launch of "AXTEL Corporativos", a marketing initiative to strengthen our position as a unified communications supplier with a broad range of administered solutions that allow large corporations to increase the efficiency of their communications by converging different services.

Among the main services that comprise our portfolio for this market are the Inteligent 800 Service, Virtual Private Networks, the AXTEL Data Center for web collocation, hosting and application services, international voice and data services in alliance with Verizon Communications Inc., and integrated services, which include turnkey projects for telecommunications systems with administered service equipment and the integration of customers' own applications.

AXTEL has incorporated IT solutions combined with the telecommunications services that we currently offer to provide advanced solutions that meet our customers' complex communications and information systems requirements. AXTEL's value added offerings for the corporate segment focus on us becoming our customers' technological partner in order to make them more profitable, efficient and competitive.

During 2007, AXTEL signed important contracts with well-known companies in Mexico, as well as with federal government entities.

Since our largest customers have a growing need for more complex solutions, our products increasingly involve IT solutions that are integrated with the communications services that we already offer.

MAIN SERVICES STRATEGIC ACCOUNTS

INTELIGENT 800 SERVICE

VIRTUAL PRIVATE NETWORKS

AXTEL DATA CENTER

INTERNATIONAL VOICE AND DATA SERVICES

INTEGRATED SERVICES (TURNKEY PROJECTS)

STRATEGIC NEGOTIATIONS

IN 2007, THE EXECUTIVE DEPARTMENT FOR STRATEGIC NEGOTIATIONS SUCCESSFULLY SIGNED SEVERAL CONTRACTS WITH LEADING NATIONAL AND INTERNATIONAL COMPANIES, THUS ENSURING AXTEL OPERATES WITH THE BEST TECHNOLOGY AND INFRASTRUCTURE.

In 2007, we designed a "multi-vendor" strategy for selecting equipment and last-mile solution suppliers.

We also designed a "multi-vendor" strategy for selecting equipment and last-mile solution suppliers, choosing Motorola Inc. as our leading supplier of radio bases (access points), central network infrastructure, customer premises equipment and associated services for the initial deployment of WiMAX technology.

We closed negotiations for supplying new-generation technology products for our transportation network. These products include Metro-Ethernet and SDH NGN via fiber optic equipment, as well as Ethernet microwave radios. Contracts were signed with Alcatel-Lucent, Nokia Siemens Networks and Ericsson Telecom, as well as other companies.

During the year, AXTEL became a "Gold Partner" of Cisco Systems and signed an agreement with JNetX to develop the system for our intelligent network, positioning us to supply 01-800 dialing and pre-paid phone cards, as well as other services, without depending on third parties.

In 2007, we were the first company to sign an agreement with the Mexican Federal Electricity Commission (CFE) to lease this company's more than 12-thousand-mile fiber optic network. This will enable us to extend and enrich the scope of our integrated telecommunications services, and provide alternate routes for long distance transportation.

The company also made the preparations needed to add capacity to our existing border crossings, thus making it possible for us to increase our network's level of availability and security, as well as its soundness and range.

In addition, we undertook all necessary steps needed to expand our metropolitan fiber optic network by almost 27% compared to 2006, increasing it from 1079 to 1366 kilometers year-over-year.

In 2007, we coordinated with government departments to maintain the integrity of the operations of our network. We also supported the ten cities where we began offering services in 2007, and promoted growth in the ones where we already operated.

We signed an extension of our business agreement with Nextel de México until August 31, 2011 to continue offering local services, spectrum, long distance calling and 01-800 numbers, as well as other services, in a significant number of Mexican cities.

We continued to work with different government entities on regulatory issues in order, among other initiatives, to reduce tariffs for connecting fixed equipment to mobile telephones, to the benefit of our users, the company and our stockholders. We also partnered with government authorities on the process of defining number portability, which will come into effect on the second half of 2008.

During 2007, we signed seven interconnection agreements, bringing the total number which we have formalized with Mexico's main telecommunications operators to 89.

27%

Expanding our fiber optic network

Gold Partner

Award given by Cisco Systems

SOCIAL RESPONSIBILITY

IN ORDER TO REINFORCE OUR INTERNAL AND EXTERNAL SOCIAL RESPONSIBILITY PRACTICES AND TO GAIN RECOGNITION FOR THE COMPANY'S WORK IN THIS FIELD, AXTEL DECIDED TO PURSUE CERTIFICATION AS A SOCIALLY RESPONSIBLE COMPANY, WHICH WAS ACHIEVED FOR THE FIRST TIME DURING 2007.

THIS CERTIFICATION REFLECTS THE COMPANY'S WORK PHILOSOPHY, IN PARTICULAR THE ACTIONS IT HAS TAKEN TO HELP ITS EMPLOYEES AND THEIR FAMILIES TO IMPROVE THEIR QUALITY OF LIFE, ITS STRATEGIES FOR THE SUSTAINABLE USE OF RESOURCES AND ENVIRONMENTAL PROTECTION, ITS ETHICAL BUSINESS PRACTICES, ITS COMMUNITY OUTREACH ACTIVITIES, AND THE PROCESSES AND METHODS IT USES TO PROMOTE RESPONSIBLE MARKETING AND CONSUMPTION.

fundación AXTEL®

The AXTEL Foundation continued its efforts to encourage a culture of social responsibility among its workers and their families through the AXTEL Volunteer Work Program.

One of the social responsibility initiatives implemented this year was the creation of an Environment Committee. This Committee took steps to enhance AXTEL's good practices in the field and to encourage a culture of environmental responsibility both within the company and among its personnel and their families.

During 2007, the AXTEL Foundation continued to champion community outreach activities and strengthened its presence in, and impact on, the social development of Mexico through the expansion of its support and creation of growth opportunities for non-profit organizations in our country.

A diagnostic study demonstrated the need for such groups to strengthen their organizational, administrative and strategic capacities. The Foundation sees investments in these areas as the cornerstone of its endeavors and a mean to have an even greater impact on the country's social development.

Actions taken during the year included an Institutional Enhancement pilot program conducted with an allied organization that shared its development model and led our efforts in the creation of a Social Network for beneficiaries.

This program reflects one of the guiding principles of the Foundation, which is joint accountability expressed in the promotion and creation of alliances for development. Thanks to its success, this developmental approach will be repeated in the near future in different sectors of interest to the Foundation.

The Foundation also strongly supported formal education in 2007 by channeling resources to top universities and programs that encourage excellence in public education. Additionally, it backed initiatives that promote public health and the quality of our environment.

The second Competition for Joint Investment in Social Projects was another outstanding event in the year. In April, the company sent out a call for entries to organizations from all the cities in which it operates. The competition benefited 34 organizations in 2007, a 36% increase compared to 2006.

The projects selected this year directly helped 138,023 people and addressed topics such as quality in education, the deterrence of violence, the formation of a culture of environmental awareness and the prevention of addiction, all priority areas for Mexico's development.

The AXTEL Foundation continued its efforts to encourage a culture of social responsibility among its workers and their families through the AXTEL Volunteer Work Program. This year, thanks to the program, employees in all the cities in which AXTEL operates partnered to support flood victims in the state of Tabasco.

The new certification, together with the company's steady growth, gives us an opportunity in 2008 to continue implementing initiatives to benefit both our internal community and the communities in which we operate. We have great ideas and the ground is fertile, so we expect to keep expanding our actions to promote more sustainable development.

34

organizations were benefited through "Coinversión en Proyectos Sociales" program

138,023

People were directly helped in 2007

Axtel obtained the "Socially Responsible Company" distinction award.

BOARD OF DIRECTORS

Tomas Milmo Santos (43) Founding member, CEO, Member of the Board since 1994 and Chairman of the Board since 2003. He is a Member of the Boards of Cemex, the Monterrey Institute of Technology (Instituto Tecnologico y de Estudios Superiores de Monterrey), HSBC Mexico, Cemex Mexico, Promotora Ambiental, Instituto Nuevo Amanecer and NCCEP (the National Council for Community and Education Partnerships).

Thomas Milmo Zambrano (72) Founding member, Member of the Board since 1997 and Chairman of the Board from 1997 to 2003. He was the founder and Chairman of the Board of Grupo Javer and Incasa. He was Chairman of the Board and CEO of Carbonifera de San Patricio and Carbon Industrial.

Lorenzo Zambrano Treviño (64) Founding member and Member of the Board since 1997. He is CEO and Chairman of the Board of Cemex and Chairman of the Board of the Monterrey Institute of Technology (Instituto Tecnologico y de Estudios Superiores de Monterrey). He is a Member of the Board of IBM and a Member of the International Advisory Boards of Allianz and Citigroup. He is also a Member of the Boards of Alfa, Femsa, Grupo Financiero Banamex, Televisa and Vitro, as well as a Member of Stanford University's Graduate School of Business Advisory Council and of the Board of Monterrey's modern art museum, MARCO.

Alberto Santos de Hoyos (66) Founding member and Member of the Board since 1997. He is a Member of the Boards of the local region of Banco de Mexico, Grupo Cydsa, Grupo Senda and Madisa. He has been a Senator and Representative in the Mexican Congress, President of the Nuevo Leon Chamber of Industry (CAINTRA), Vice President of the Confederation of Industrial Chambers (CONCAMIN) and President of the National Chamber of the Sugar and Alcohol Industries. He was Chairman of the Board, CEO and a Member of the Board of Gamesa. He is currently a Member of the Boards of Desarrollo Social, Casa Paterna La Gran Familia, Andares, Instituto Nuevo Amanecer, Renace, Admic and Patronato Pro Educacion Marista, and Chairman of the Boards of Empresas Santos, Ingenio Santos and Tres Vidas.

Patricio Jimenez Barrera (42) Member of the Board since 1998. He is Chief Financial Officer of AXTEL, responsible for Finance, Administration, Human Resources, Legal and Procurement. Before joining the company, he held several positions in the financial sector, including with the Invermexico Brokerage House, the International Treasury of Grupo Cydsa, S.A. and Banca Serfin, S.A., where he became Director of International Banking and Treasury. He is currently a Member of the Boards of Seguros Banorte Generali, Pensiones Banorte Generali and Operadora de Servicios Mega.

Alberto Garza Santos (44) Member of the Board of AXTEL since 2003. He is a Founder and Chairman of the Board of Promotora Ambiental and Museo Maderas del Carmen, A.C. He is a Member of the Boards of Maquinaria Diesel, Desarrollo Inmobiliario Delta and Gemini. He is President of Fundacion Mundo Sustentable, A.C., of the Advisory Council of Parque Ecologico Chipinque and of the Environmental Commission of CANACINTRA.

Hector Medina Aguiar (57) Member of the Board since 2003. He is the Executive Vice President of Planning and Finance at Cemex. Before joining Cemex, he was a member of Grupo ALFA's management team. He is Chairman of the Board of Universidad Regiomontana, and a Member of the Board of Grupo Cementos de Chihuahua, Nacional Monte de Piedad, Mexifrutas and Banco Ahorro FAMSA, as well as a member of the Vigilance Committee of the Monterrey Institute of Technology (Instituto Tecnologico y de Estudios Superiores de Monterrey).

Bernardo Guerra Treviño (43)* Member of the Board since 2005 and Chairman of the Audit and Corporate Practices Committees. He is a founding partner of Morales y Guerra Capital Asesores (MG Capital), a Member of the Boards of Promotora Ambiental and Banco Ahorro FAMSA, and Chairman of the Audit Committee of Promotora Ambiental and of the Risks Committee of Banco Ahorro FAMSA.

Fernando Quiroz Robles (52)* Member of the Board of AXTEL since 2007. He is Chairman of the Board of Acciones y Valores Banamex, S.A. de C.V., a brokerage house that is part of Grupo Financiero Banamex ("Accival"), and Head of Citigroup Latin America's Corporate and Investment Banking Division. At Citigroup, he is also a member of the Committee for Administration and Investment Banking and of the Planning Committee. He previously occupied several executive positions with Banamex and Citigroup in areas such as strategic planning and economic analysis. He began his career with Banamex in 1979.

Lawrence H. Guffey (40)* Member of the Board since 2000 and a Member of the Audit and Corporate Practices Committees. He is Managing Director of Private Equity at Blackstone. He previously worked in the area of acquisitions at Trammell Crow Ventures. He is a Member of the Boards of Centennial Communications, Encoda Systems, Orcom and FiberNet.

* Independent member of the Board

ALTERNATE DIRECTORS

Alberto de Villasante Herbert
Balbina Milmo Santos
Francisco Garza Zambrano
Alberto Santos Boesch
Andres Velazquez Romero
David Garza Santos
Ramiro Villarreal Morales
Mauricio Morales Sada
Javier Arrigunaga Gomez del Campo
Benjamin Jenkins

COMPANY OFFICERS

Tomas Milmo Santos

Chairman of the Board and Chief Executive Officer

Patricio Jimenez Barrera

Chief Financial Officer

Andres Velazquez Romero

Executive Director of Mass and Business Markets

Bruno Gustavo Ramos Maza

Executive Director of Strategic Accounts

Ivan Alonso Hernandez

Chief Technology Officer

Alberto De Villasante Herbert

Executive Director of Strategic Negotiations

Gerardo Gonzalez Villarreal

Audit Director

FINANCIAL INFORMATION

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Adjusted EBITDA. The adjusted EBITDA – defined as net income plus net interest expense, taxes, depreciation and amortization, and adjusted for extraordinary and/or non-recurrent revenues and expenses – totaled Ps. 4,084.5 million in 2007, compared to Ps. 2,311.2 million in 2006, an increase of Ps. 1,773.2 million or 77%. As a percent of revenues, the margin was 33.5% for the twelve months ended December 31, 2007.

Depreciation and Amortization. As a result of our geographical expansion during 2007 and the depreciation and amortization costs related to the acquisition of the assets of Avantel that were not reflected in the first eleven months of 2006, depreciation and amortization totaled Ps. 2,690.7 million for the twelve months ended December 31, 2007, compared to Ps. 1,560.1 million for the twelve months of 2006, a growth of Ps. 1,130.6 million, or 72%.

Operating Income (Loss). Operating income totaled Ps. 1,393.8 million for the twelve months ended December 31, 2007, compared to Ps. 751.2 million for the twelve months of 2006, an increase of Ps. 642.6 million, or 86%.

Comprehensive Financial Cost

The comprehensive financial cost totaled Ps. (501.5) million for the twelve months ended December 31, 2007, compared to Ps. (380.2) million in 2006. The increased comprehensive financial cost reflects an increase of Ps. 400.0 million in net interest expense from the increased indebtedness after the acquisition of Avantel, which was partially offset by increases of Ps. 256.7 million and Ps. 44.8 million in gain from monetary position and changes in the valuation of derivative instruments, respectively.

Net Income

For the twelve months ended December 31, 2007, the Company posted a net income of Ps. 491.0 million, compared to Ps. 222.4 million for 2006. The growth in net income reflects the effects referred to above, combined with an increase of Ps. 258.0 million in deferred taxes mainly because of fiscal changes introduced in the fourth quarter of 2007.

Main Changes in the Company's Financial Position

During 2007, the Company's cash and cash equivalents grew from Ps. 1,222.1 million at the end of 2006 to Ps. 1,573.9 million at yearend 2007. This increase is explained as follows: resources generated by the Company's operations provided Ps. 3,226.7 million in 2007, while resources provided by external financing activities and capital issues totaled Ps. (318.6) million. Continuing with its growth strategy, in 2007 the Company began operating in 10 new cities, and also expanded its coverage in cities where it already offered services, investing Ps. 2,486.1 million in infrastructure, equipment and technology and Ps. 70.3 million in other assets. This, together with the variations discussed above, explains the increase in cash and cash equivalents of Ps. 351.7 million in 2007.

Debt

As of December 31, 2007, the debt reduction of Ps. 717.0 million year-over-year is explained by the prepayment of Avantel's acquisition financing with the 2017 Senior Notes and cash, the amortization of principal under diverse lease obligations, prepayment of small loans and lease obligations and a slightly more favorable exchange rate on December 31, 2007 compared to the same date in 2006.

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

We have audited the accompanying consolidated balance sheets of Axtel, S.A.B. de C.V. and subsidiaries (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of operations, changes in stockholders' equity, and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are prepared in accordance with Mexican Financial Reporting Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the reporting standards used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As indicated in note 5 to the financial statements, on November 27, 2006 the Company acquired Avantel Infraestructura, S. de R.L. de C.V. and Avantel, S. de R.L. de C.V. in a transaction valuated in approximately U.S. $520 millions. This transaction was accounted for by the purchase method of accounting in accordance with Financial Reporting Standard B-7 "Business Combinations" and during the year 2007 some adjustments were made to the amounts initially recognized.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Axtel, S.A.B. de C.V. and its subsidiaries as of December 31, 2007 and 2006, and the consolidated results of their operations, the changes in their stockholders' equity and the changes in their financial position for the years then ended, in conformity with Mexican Financial Reporting Standards.

KPMG Cardenas Dosal, S.C.

Leandro Castillo Parada

Monterrey, N.L., Mexico
February 25, 2008

Consolidated Balance Sheets

(Thousands pesos of constant purchasing power as of December 31, 2007)

		December 31	
Assets		2007	2006
Current assets:			
Cash and cash equivalents	Ps.	1,573,877	1,222,145
Accounts receivable (note 7)		1,822,349	1,660,560
Refundable taxes and other accounts receivable (note 9)		113,148	252,662
Prepaid expenses		45,657	43,862
Inventories (note 10)		167,889	103,070
Total current assets		3,722,920	3,282,299
Long-term accounts receivable		18,254	20,686
Property, systems and equipment, net (notes 11 and 16)		13,679,871	14,036,601
Intangible assets (note 14)		1,058,204	1,422,814
Pre-operating expenses, net (note 12)		111,897	159,591
Deferred income taxes (note 19)		936,089	620,877
Deferred employee's profit sharing (note 19)		14,180	27,774
Investment in shares of associated company (note 13)		15,249	14,127
Other assets, net (nota 15)		274,013	309,207
Total assets	Ps.	19,830,677	19,893,976
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities (note 9)	Ps.	1,848,934	1,919,175
Accrued interest		111,849	16,446
Taxes payable		136,556	62,624
Current maturities of long-term debt (note 16)		160,163	163,207
Other accounts payable (note 17)		394,006	511,205
Deferred revenue (note 9)		583,052	614,551
Derivative financial instruments (note 8)		93,861	68,541
Total current liabilities		3,328,421	3,355,749
Long-term debt, excluding current maturities (note 16)		7,484,955	8,294,282
Other long-term accounts payable		6,215	3,014
Severance, seniority premiums and other post retirements benefits (note 18)		57,514	85,506
Deferred revenue (note 9)		203,226	271,103
Total liabilities		11,080,331	12,009,654
Stockholders' equity (note 20):			
Common stock		8,870,062	8,677,782
Additional paid-in capital		741,671	547,131
Deficit		(949,610)	(1,440,606)
Cumulative deferred income tax effect		132,168	132,168
Change in the fair value of derivative instruments (note 8)		(43,945)	(32,153)
Total stockholders' equity		8,750,346	7,884,322
Commitments and contingencies (note 22)			
Total liabilities and stockholders' equity	Ps.	19,830,677	19,893,976

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

Consolidated Statements of Operations For the years ended December 31, 2007 and 2006

(Thousands pesos of constant purchasing power as of December 31, 2007)

		Years ended December 31, 2007	2006
Telephone services and related revenues (note 21)	Ps.	12,190,610	6,675,712
Operating costs and expenses:			
Cost of revenues and services		(4,504,713)	(2,104,361)
Selling and administrative expenses		(3,601,427)	(2,260,105)
Depreciation and amortization		(2,690,687)	(1,560,054)
		(10,796,827)	(5,924,520)
Operating income		1,393,783	751,192
Comprehensive financing result:			
Interest expense		(925,049)	(482,735)
Interest income		134,441	92,135
Foreign exchange gain, net		972	23,700
Change in the fair value of derivative instruments		19,942	(24,808)
Monetary position gain		268,797	11,467
Comprehensive financing result, net		(500,897)	(380,241)
Employee's profit sharing (note 19)		(6,088)	(1,570)
Deferred employee's profit sharing (note 19)		(13,594)	4,699
Other expenses, net		(438)	(35,770)
Other expenses, net		(20,120)	(32,641)
Income before income taxes and equity in results of associated company		872,766	338,310
Income tax expense (note 19)		(98,819)	(4,894)
Deferred income tax (note 19)		(284,381)	(112,656)
Total income taxes		(383,200)	(117,550)
Equity in earnings of associated company (note 13)		1,430	1,652
Net income	Ps.	490,996	222,412
Weighted average common shares outstanding		8,754,493,119	8,522,810,598
Basic and diluted earnings per share (pesos)(note 20)		0.06	0.03

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

Consolidated Statements of Changes in Financial Position

For the years ended December 31, 2007 and 2006

(Thousands pesos of constant purchasing power as of December 31, 2007)

		Years ended December 31,	
		2007	2006
Operating activities:			
Net income	Ps.	490,996	222,412
Add charges (deduct credits) to operations not requiring (providing) resources:			
Depreciation		2,299,574	1,413,288
Amortization		391,113	146,766
Accrual for seniority premiums and severance payments		11,324	12,474
Deferred income tax and employee's profit sharing		297,975	107,957
Equity in earnings of associated company		(1,430)	(1,652)
Resources provided by operations		3,489,552	1,901,245
(Investment in) net financing from operations		(262,804)	630,851
Resources provided by operating activities		3,226,748	2,532,096
Financing activities:			
Increase in common stock		192,280	-
Additional paid-in capital		194,540	(9,804)
(Payments) proceeds from loans, net		(812,371)	5,409,926
Restricted cash		-	37,225
Accrued interest		95,403	2,680
Other accounts payable		11,523	8,986
Resources (used) provided by financing activities		(318,625)	5,449,013
Investing activities:			
Acquisition and construction of property, systems and equipment, net		(2,486,093)	(7,854,529)
Pre-operating expenses		-	(13,991)
Investment in shares of associated company		-	(12,474)
Intangible assets		-	(752,082)
Other assets		(70,298)	(167,551)
Resources used in investing activities		(2,556,391)	(8,800,627)
Increase (decrease) in cash and cash equivalents		351,732	(819,518)
Cash and cash equivalents at beginning of year		1,222,145	2,041,663
Cash and cash equivalents at end of year	Ps.	1,573,877	1,222,145

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

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2007 and 2006

(Thousands pesos of constant purchasing power as of December 31, 2007)

		Common stock	Additional paid-in capital	Deficit	Cumulative deferred income tax effect	Change in the fair value of derivative instruments	Total stockholders' equity
Balances as of December 31, 2005	Ps.	8,677,782	556,935	(1,663,018)	132,168	(62,761)	7,641,106
Issuance costs		-	(9,804)	-	-	-	(9,804)
Comprehensive income (note 20c)		-	-	222,412	-	30,608	253,020
Balances as of December 31, 2006		8,677,782	547,131	(1,440,606)	132,168	(32,153)	7,884,322
Issuance of common stock (note 20a)		192,280	194,540	-	-	-	386,820
Comprehensive income (note 20c)		-	-	490,996	-	(11,792)	479,204
Balances as of December 31, 2007	Ps.	8,870,062	741,671	(949,610)	132,168	(43,945)	8,750,346

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

(1) Basis of presentation

These financial statements have been translated from Spanish language only for the convenience of the English-speaking readers.

On February 25, 2008, the Administration of the Company authorized the issuance of the accompanying consolidated financial statements and related footnotes.

According to Mexican General Corporation Law and the Company statutes, the stockholders' have the right to change the financial statements after their issuance. The accompanying financial statements will have to be approved at the next Stockholders' Meeting.

The accompanying consolidated financial statements have been prepared in accordance with Mexican Financial Reporting Standards.

(2) Organization, description of business and salient events

Axtel, S.A.B. de C.V. and subsidiaries (the Company or AXTEL) is a Mexican corporation engaged in operating and/or exploiting a public telecommunication network to provide voice, sound, data, text, and image conducting services, and local, national, and international long-distance calls. To provide these services and carry out the Company's activity, a concession is required (see note 22e). 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.

AXTEL offers different access technologies, including fixed wireless access, point-to-point, point-to-multipoint,radio links, WiMAX, fiber optic and copper technology, which are used depending on the communication needs of the clients.

On August 31, 2007, the stockholders' approved a three-for-one stock split (the split). The split became effective on October 8, 2007. The proportional equity interest participation of existing stockholders did not change as a result of the split. For comparison purposes, the number of shares is presented in note 20 adjusted for the effects of the split.

On February 2, 2007, the Company issued U.S. $275 million of 10-year unsecured senior notes. This issuance matures on February 1, 2017. The interest will be payable semiannually and the senior notes bear interest at 7 5/8 % beginning on August 1, 2007. The proceeds of this issuance were used to prepay the bridge financing related to the December 2006 acquisition of Avantel (see note 16).

As described in note 20, on January 4, 2007 Telecomunicaciones Holding Mx, S. de R.L. de C.V. ("Tel Holding") subscribed and paid 246,453,963 Series B shares (represented by 35,207,709 CPOs) through the Instituto Nacional de Valores ("INDEVAL"), in relation to the subscription agreement.

As described in note 5, on November 27, 2006 the Company signed an agreement with Banco Nacional de Mexico, S.A. ("Banamex") and Tel Holding to acquire all the assets and shares of Avantel Infraestructura, S. de R.L. de C.V. and Avantel, S. de R.L. de C.V. therefore the results of operations have been included in the Company's consolidated statement of operations since December 1, 2006. The acquisition transaction was financed through various loans amounting to approximately U.S. $515 million, as described in note 16.

On February 22, 2006 the Company redeemed U.S. $87,500,000 aggregate principal amount of its 11% senior notes due 2013, or 35% of the U.S. $250,000,000 original aggregate principal amount of the notes. The redemption was made at a price of 111% of the principal amount of the notes, plus accrued and unpaid interest through the redemption date. The premium paid on this transaction amounted to approximately U.S. $9.6 million, and is included in the statement of operations as part of the comprehensive financing result.

(3) Summary of significant accounting policies

The accounting policies and practices followed by the Company in the preparation of the consolidated financial statements are described below:

(a) Use of estimates

The preparation of consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, valuation allowances for receivables, inventories and deferred income tax assets; valuation of derivative instruments; and assets and obligations related to employee benefits. Actual results could differ from those estimates and assumptions.

For purposes of disclosure in the notes to the consolidated financial statements, references to pesos or "Ps.", are to Mexican pesos; likewise, references to dollars or "U.S. $" , are to dollars of the United States of America.

(b) Recognition of the effects of inflation

The accompanying consolidated financial statements have been prepared in accordance with Financial Reporting Standards in Mexico (FRS), which include the recognition of the effects of inflation on the financial information, and are expressed in thousands of Mexican pesos at the constant purchasing power of December 31, 2007 based upon the National Consumer Price Index (NCPI) published by Banco de Mexico.

The indexes used in recognizing the effects of inflation were as follows:

	NCPI	Inflation %
December 31, 2007	459.101	3.76
December 31, 2006	442.468	4.05
December 31, 2005	425.232	3.30

(c) Principles of consolidation

The consolidated financial statements include the financial statements of Axtel and the subsidiaries mentioned below. All accounts and intercompany transactions have been eliminated in the preparation of the consolidated financial statements. The consolidation was made based on audited financial statements of each of the subsidiaries, which were prepared in accordance with the FRS

The Company owns 100% directly or indirectly of the following subsidiaries:

	Main activity
Instalaciones y Contrataciones, S. A. de C. V. ("Icosa")	Administrative services
Impulsora e Inmobiliaria Regional, S. A. de C. V. ("Inmobiliaria")	Property management
Servicios Axtel, S. A. de C. V. ("Servicios Axtel")	Administrative services
Avantel, S. de R.L. de C.V. ("Avantel")*	Telecommunication services
Avantel Infraestructura S. de R.L. de C.V. ("Avantel Infraestructura")*	Telecommunications services
Adequip, S.A.	Fiber optic rings leasing
Avantel Recursos, S.A. de C.V. ("Recursos")	Administrative services
Avantel Servicios, S.A. de C.V. ("Servicios")	Administrative services
Telecom. Network, Inc. ("Telecom")	Telecommunications services

* On June 30, 2005, Avantel Infraestructura and certain subsidiaries as partners, together with Avantel as a representative partner of the Joint Venture, entered into a Joint Venture agreement to permit Avantel provide services and operate Avantel Infraestructura's public telecommunications network. Under this agreement, Avantel Infraestructura contributed the concessioned network, and the other associates contributed the customer agreements, as well as support and human resources services.

As a result of the above, Avantel Infraestructura entered into an agreement with Avantel to transfer the concession rights granted by the Secretaria de Comunicaciones y Transportes ("SCT").

(d) Cash equivalents

Cash equivalents of Ps. 1,390,858 and Ps. 948,961 at December 31, 2007 and 2006, respectively, consist of overnight repurchase agreements and certificates of deposit with an initial term of less than three months. Cash equivalents are carried at the lower of acquisition cost plus accrued interest as of the most recent balance sheet date or net estimated realizable value. Interest and foreign currency exchange fluctuation are included in the statements of operations as part of the comprehensive financing result.

(e) Trade accounts receivable

Trade accounts receivable includes the amount billed to customers and a provision for services rendered at the balance sheet date but not billed. Amounts billed are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company reviews its allowance for doubtful accounts monthly. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential recovery is considered remote.

(f) Investment in shares of associated company

The investment in shares of associated company is accounted for by the equity method.

(g) Inventories and cost of sales

Inventories are carried at the lower of restated cost and net realizable value and are accounted using the average cost method. The restated cost is determined by application of the NCPI factor to current costs.

(h) Property, systems and equipment

Property, systems and equipment are recorded at acquisition cost and restated by NCPI factors. Property under capital leases are stated at the present value of minimum lease payments.

Starting January 1, 2007, the acquisitions of assets in period of construction or installation include the corresponding comprehensive financing result as part of the assets value.

Comprehensive financing results incurred up to June 1999 during construction or installation periods were capitalized as part of the cost of the assets that were acquired during the pre-operating stage. Since that date, comprehensive financing results have been recognized as part of the results of the year in which they are incurred.

Depreciation of property, systems and equipment is calculated using the straight-line method, based on useful lives estimated by management. Useful lives are described in note 11.

Leasehold improvements are amortized over the shorter of the useful life of the improvement or the lease term.

Maintenance and repairs, including the cost of replacing minor items not constituting substantial betterments are expensed as incurred and charged principally to selling and administrative expenses.

(i) Telephone concession rights

Telephone concession rights that are included within intangible assets, are restated by NCPI factors and amortized under the straight-line method over a period of 20 to 30 years (the initial term of the concession rights). Avantel's telephone concession rights are amortized over the remaining term of life.

(j) Pre-operating expenses

Pre-operating expenses include administrative services, technological advice and comprehensive financing results incurred through June 1999 and also the expenses incurred during 2000, 2004, 2005 and 2006 in opening offices in other cities throughout the country. These expenses were capitalized, and restated by NCPI factors and are amortized under the straight-line method over a period of 10 years (see note 12).

(k) Other and intangible assets

Other assets mainly include costs related to Telmex / Telnor infrastructure costs and notes issuance costs. These assets are restated by NCPI factors and amortized on a straight line method. Also includes guarantee deposits and, beginning 2005, the intangible asset related to the labor obligations (see note 15).

As a consequence of the acquisition of Avantel and based upon calculations prepared by an independent expert appraiser, the Company recognized different intangible assets as follows: trade name, customers relationships and concession right. (see note 14).

(l) Seniority premiums, severance payments and post employment benefits

Seniority premium benefits, and, beginning 2005, severance compensation for reasons other than restructuring, to which employees are entitled in accordance with the Federal Labor Law are charged to expense based on actuarial computations of the present value of this obligation. Amortization of prior service costs is based on the estimated average service lives of existing personnel. As of December 31, 2007, the average service life of employees entitled to plan benefits approximates 16 years.

(m) Derivative financial instruments

The Company accounts for derivatives and hedging activities in accordance with Bulletin C-10 for Mexican GAAP and FASB Statement No. 133, for US GAAP, Accounting for Derivative Instruments and Certain Hedging Activities, as amended, which require that all derivative instruments be recorded on the balance sheet date at their respective fair values, including those derivatives embedded in financial or non financial contractual agreements.

The Company uses financial derivative instruments in order to manage financial exposures, specially foreign exchange related, and rates related. According to NIF C-10 and FASB-133, allows to account such operations as a hedging operation if it accomplish certain requirements as effectiveness proves, and to avoid the recording of volatility in derivative instruments fair values in the income statement. The Company accounts the operations with financial derivative instruments with hedging activities into two main classifications: (i) Fair value hedging and (ii) Cash flows hedging.

In spite of last paragraph, the Company has accounted operations with financial derivative instruments under the classification of trade, which fair value have been accounted directly in the income statement. This is due to the reason that some operations did not accomplish some of the requirements in actual norms to be registered under accounting hedge model, even though these operations are hedging activities highly effective.

The Company has financial derivative instruments that are registered as fair value hedge and the accounting register is realized by taking the changes in the fair value and the changes in the fair value of the risk primary position to the results of the year, for their compensation. For the financial derivative instruments registered as cash flow hedging the Company registers in the comprehensive income the change in the fair value of them and at the moment when a profit or loss is realized, is registered at the results of the Company, recycling the comprehensive income.

The ineffectiveness portion of the change in the fair value of a derivative instrument that qualifies as a hedging activity is reported in the income statement.

The Company will discontinue hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised. In any of these cases the fair value of the financial instrument is recognized directly in the income statement (see note 8).

(n) Income tax (IT) tax on assets (TA) and employee's statutory profit sharing (ESPS)

IT is accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Deferred ESPS is recognized for timing differences arising from the reconciliation of book income to income for profit sharing purposes with respect to which it may reasonably be estimated that a future liability or benefit will arise and there is no indication that the liabilities or benefits will not materialize.

(o) Inflation adjustment of common stock, other contributions and deficit

This adjustment is determined by multiplying stockholder contributions and deficit by NCPI factors, which measure accumulated inflation from the dates contributions were made and losses arising through the most recent year end. The resulting amounts represent the constant value of stockholders' equity.

(p) Comprehensive income (loss)

The comprehensive income (loss) represents the net income or loss for the year plus the effect of those items reflected directly in stockholders' equity, other than capital contributions, reductions and distributions.

(q) Cumulative deferred income tax effect

Represents the cumulative effects of deferred taxes as of the date of adoption of the FRS D-4.

(r) Comprehensive financing result (CFR)

The CFR includes interest income and expense, foreign exchange gain and loss, the monetary position gain and valuation effects of financial instruments, less the amounts capitalized, as part of fixed assets and preoperating expenses.

Foreign currency transactions are recorded at the rate of exchange prevailing on the date of execution or settlement. Foreign currency assets and liabilities are translated at the exchange rate in force at the balance sheet date. Exchange differences arising from assets and liabilities denominated in foreign currencies are recognized in the results of operations.

Monetary position gains and losses are determined by multiplying the difference between monetary assets and liabilities at the beginning of each month, including the deferred taxes, by inflation factors through year-end. The aggregate of these results represents the monetary gain or loss for the year arising from inflation, which is recognized in the CFR.

(s) Revenue recognition

The Company's revenues are recognized when earned, as follows:

- Telephony Services –The Company generates revenue by enabling our customers to originate and receive an unlimited number of calls. Customers are charged a flat monthly fee for basic service, a per call fee for local calls ("measured service"), a per minute usage fee for calls completed on a cellular line ("calling party pays" or "CPP calls") and national and international long distance calls, and a monthly fee for value-added services and internet services when requested by the customer. The costs related to the termination of our customers' cellular and long distance calls on other carriers' networks are charged to cost in the same month that the revenue is earned.
- Activation - At the moment of installing the service when the customer has a contract with indefinite term; otherwise is recognized according to the term of the contract between the customer and the Company.
- Equipment. At the moment of selling the equipment and when the customer acquires the property of the equipment and assumed all risks.
- Integrated services. At the moment when the client receives the service.

(t) Business and risk concentration

The Company rendered services to one client that represents approximately 11% and 16% of total net rental, installation, service and other revenues during 2007 and 2006 respectively. The Company provides an allowance for doubtful accounts based on management's analyses and estimations. The allowance expense is included as part of the selling and administrative expenses in the consolidated statement of operations.

(u) Contingencies

Liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. When a reasonable estimation can not be made, qualitative disclosure is provided in the notes to the consolidated financial statements. Contingent revenues, earnings or assets are not recognized until their realization is virtually assured.

(v) Impairment of property, systems and equipment and other non-current assets

The Company evaluates, at least once a year, the adjusted values of its property, systems and equipment and other non-current assets subject to amortization to determine whether there is an indication of potential impairment or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed off are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

(w) Segment information

The Company believes that it operates in one business segment. Management does view the business as consisting of two revenues streams (Mass market and Business Market); however it is not possible to attribute direct or indirect costs to the individual streams other than selling expenses.

(x) Business combinations

To account for the acquisition of Avantel, the Company followed guidelines established on FRS B-7 "Business Combinations", which was mandatory since January 1st, 2005. The following procedures were followed by Axtel: a) The acquisition was accounted for by the purchase method of accounting; b) Allocated the cost of Avantel to the assets acquired and liabilities assumed based on their estimated fair value at the date of acquisition; c) Identified and account for identifiable intangible assets acquired; and d) The negative goodwill was reduced proportionately from the fixed assets and intangibles acquired, net of taxes.

(4) Accounting changes

- The FRS B-3, Statement of Income, issued by the Mexican Board for Research and Development of Financial Reporting Standards (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera or CINIF) became effective beginning January 1, 2007. Accordingly, the accompanying statement of income for 2006, has been modified for reporting as provided under this FRS, which together with the Interpretation of Financial Reporting Standards (INIF) 4, modified the general rules for the presentation and structure of the statement of income, eliminating the special and extraordinary items classifications, and requiring that the employee statutory profit sharing be reported under other expenses and income, rather than being presented in a line following tax on earnings, and additionally requiring that income, costs and expenses be classified as follows:

  i) Ordinary – Those related to the entity's line of business, i.e., those arising from or inherent to its primary activities, representing the principal sources of revenue, whether frequent or not.

  ii) Non-ordinary – Those arising from activities which do not represent the entity's principal sources of revenue, which are generally infrequent.

  In addition, this FRS requires that ordinary costs and expenses be classified based on their nature, function, or a combination of both. Since the Company is a service entity, ordinary costs and expenses are classified in order to present a clearer understanding of the financial information.

- FRS D-6, Capitalization of the Comprehensive Financial Results (CFR) issued by the CINIF, became effective beginning January 1, 2007. This FRS establishes the requirement to capitalize CFR attributable to certain assets having an extended acquisition period prior to being put into use. The effects of adopting this FRS are disclosed in note 11.

(5) Acquisition of Avantel

On November 27, 2006, the Company signed an agreement with Banamex, and Tel Holding, former controlling stockholders of Avantel, to purchase substantially all of the assets of Avantel Infraestructura, S. de R.L. de C.V. ("Avantel Infraestructura") for U.S. $485 millions. We also agreed to purchase the equity interests of Avantel Infraestructura and Avantel, S. de R.L. de C.V. ("Avantel Concesionaria," both companies together being referred to as "Avantel") and each of Avantel's subsidiaries for U.S. $31 millions. After obtaining all required approvals from Axtel's stockholders and government regulators, we completed the acquisition on December 4, 2006. The operating results of Avantel are included in the consolidated financial statements of the Company since December 1, 2006.

(a) Description of Avantel

Avantel Concesionaria and Avantel Infraestructura are affiliated companies and participate in a Joint Venture. Through this vehicle, the companies offer services of local telephony, domestic and international long distance and data services in Mexico.

Avantel provides telecommunication services to business, government and residential customers in Mexico. Avantel is Mexico's second largest provider of domestic and international long distance telephone services based on revenues and, recently, has increased its participation in the internet and data transmission markets. Avantel operates a fiber optic network of approximately 7,700 kilometers that reaches over 200 cities in Mexico.

Avantel is one of the leading providers of Internet-Protocol (IP) solutions in Mexico. Avantel's IP solutions are especially tailored to meet the diverse needs of companies of all sizes and sectors, and their scope ranges from intelligent voice and data transmission to virtual private networks, or VPN's, integrated telecommunications packages and managed services.

(b) Transaction objective

The main objective of the transaction is to create an added value for the stockholders of the Company through the projected benefits of synergies, more strength by increasing the size of the Company, more presence on nationwide coverage and more efficiency for the expansion in new cities, among others, which will traduce in an increase of our competitive advantages that Axtel keeps against its actual and future competitors.

(c) Purchase price allocation

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date. The acquisition cost of Avantel was approximately U.S. $520 million. This amount includes certain costs and expenses associated with the transaction, such as financial advisory costs, lawyers, independent experts of valuation, among others.

After the recognition of the effects of FRS B-7, an excess in the value of the net assets acquired over the cost of the transaction was recognized of approximately Ps. 1,157,926, and following the rules of the FRS B-7 we diminished it proportionally from the property, systems and equipment and intangible assets.

As of November 30, 2007, the effect of the assets acquired and liabilities assumed after the adjustments made during 2007 are as follows:

Balance Sheet:		Preliminary Value	Adjustments	Definitive Value
Current assets	Ps.	1,242,121	-	1,242,121
Property, systems and equipments, net		6,568,961	(597,333)	5,971,628
Intangible assets		831,100	(122,870)	708,230
Deferred income tax		748,093	595,007	1,343,100
Others		84,604	-	84,604
Total of assets acquired		9,474,879	(125,196)	9,349,683
Current liabilities		2,455,832	(107,687)	2,348,145
Long term liabilities		867,201	(17,509)	849,692
Total of liabilities assumed		3,323,033	(125,196)	3,179,837
Net assets acquired	Ps.	6,151,846	-	6,151,846

As of December 31, 2006 the revenues and costs of Avantel that were included in the consolidated financial statements amounted to Ps. 689,835 and Ps. 567,793, respectively.

The main adjustments are detailed as follows:

- Property, systems and equipment: The additional adjustments during the period were related with the final appraisal realized by independent experts, cancellation of systems that will not be used anymore and will be replaced by systems of Axtel and the effects of the negative goodwill.
- Intangible assets: The additional adjustments during the period were related with the final appraisal realized by independent experts and the effects of the negative goodwill.
- Deferred income taxes: The adjustments were related mainly to the cancellation of reserves of tax loss carryforwards from Avantel subsidiaries for better results than they were expected in the last year, and the effect derived from the other adjustments mentioned above.
- Current liabilities: These adjustments correspond to the elimination of the accrual created in connection to the early termination of links leased by Avantel. The terminated contracts did not have any cost associated.
- Long-term liabilities: This adjustment correspond to the cancellation of the pension plan as mentioned in note 18.

(d) Pro forma financial information

We derived the summary unaudited pro forma financial information from our consolidated financial statements of Axtel, S.A.B. de C.V. and Subsidiaries and the combined financial statements of Avantel Infraestructura, S. de R.L. de C.V. and Subsidiaries and Avantel, S. de R.L. de C.V. adjusted to give effects to the purchase method of accounting for the acquisition described above and the results of operations as through the combination had been completed at the beginning of 2006.

The Company provides the unaudited pro forma financial information for informational purposes only. They do not purport to indicate the operating results or financial position that would have been achieved if the acquisition had occurred on the assumed dates, nor do they purport to indicate our future operating results or financial position.

The unaudited consolidated pro forma financial information is as follows:

		Year ended December 31, 2006 (Unaudited)
Revenues	Ps.	12,202,687
Costs of revenues and services		(4,917,435)
Selling and administrative expenses		(3,782,407)
Depreciation and amortization		(2,676,745)
Operating income		826,100
Net income (loss)		10,527
Earning (loss) per share		0.00

The pro forma financial information is not an indicative of the consolidated operating results that the Company would have reported if the acquisition of Avantel would have taken place in the assumed date, and it should not be taken as representative of the operating results in the future.

(6) Foreign currency exposure

Monetary assets and liabilities denominated in dollars as of December 31, 2007 and 2006 are as follows:

	(Thousands of dollars)	
	2007	2006
Current assets	**125,138**	120,606
Current liabilities	**(82,750)**	(85,125)
Long-term liabilities	**(552,826)**	(587,343)
Foreign currency liability position, net	**(510,438)**	(551,862)

The U.S. dollar exchange rates as of December 31, 2007 and 2006 were Ps. 10.86 and Ps. 10.88, respectively. As of February 25, 2007, the exchange rate was Ps. 10.80.

As of December 31, 2007, the Company had foreign exchange derivative instruments (see note 8).

As of December 31, 2007 and 2006, the Company had the following non-monetary assets of foreign origin, the replacement cost of which may only be determined in dollars:

	(Thousands of dollars)	
	2007	2006
Inventories	**11,602**	4,154
Systems and equipment, gross	**1,172,351**	1,164,437
	1,183,953	1,168,591

Following is a summary for the years ended December 31, 2007 and 2006, of transactions carried out with foreign entities, excluding imports and exports of systems and equipment:

	(Thousands of dollars)	
	2007	2006
Income services	**79,996**	7,505
Interest expense	**61,493**	34,569
Commissions	**6**	21
Administrative and technical advisory services	**4,107**	1,336
Cost of services	**1,115**	591
	146,717	44,022

(7) Accounts receivable

Accounts receivable consist of the following:

		2007	2006
Trade	Ps.	**3,188,094**	2,880,468
Less allowance for doubtful accounts		**1,365,745**	1,219,908
Accounts receivable, net	Ps.	**1,822,349**	1,660,560

The activity in the allowance for doubtful accounts for the years ended December 31, 2007 and 2006 was as follows:

		2007	2006
Balances at beginning of year	Ps.	**1,175,711**	179,043
Bad debt expense		**190,034**	119,563
Write-offs		**-**	(13)
Avantel		**-**	877,118
Balances at end of year not adjusted for inflation		**1,365,745**	1,175,711
Effects of inflation		**-**	44,197
Balances at year end at constant pesos	Ps.	**1,365,745**	1,219,908

(8) Derivative instruments and hedging activities

The Company and its subsidiaries are exposed, by their normal business relations, to some financial risks denominated as rate risks and currency exchange rate risks, principally. To mitigate the exposure to those risks the Company and its subsidiaries use financial derivative instruments.

By using derivative financial instruments to hedge exposures to changes in currency exchange rates fluctuations, the Company exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates credit counterparty risk for the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty and, therefore, it does not possess credit risk. The Company minimizes the credit risk in derivative instruments by entering into transactions with high-quality foreign financial counterparties.

In the operations with financial derivative instruments that are registered as hedging activities it establish a relation of hedging, in which the Company and its subsidiaries formally establish the objective of the hedging, the strategy of administration of risks, the instrument of hedging, or the transaction covered, the nature of the risk that its being hedged, how the effectiveness of the financial instrument will be proved to compensate the risk covered and the methodology to measure the effectiveness of hedging.

The Company and its subsidiaries realize proves of effectiveness, prospective and retrospective, to watch in every moment that the relations of hedging keep a high effectiveness according to accounting standards. At the moment that ineffectiveness is detected the Company will register that amount in the results as part of the CFR.

Financial derivative instruments registered with hedging purposes

According to the accounting models for hedging activities that are permitted by financial standards, the dimension, risks and estimated impact in balance sheet or income statement of the following financial derivative instruments are presented below. Contrarily to financial instruments with trading purposes, the derivatives with hedging purpose will not generate volatility in the income statement, as long as they accomplish in all the term, with the requirements of the financial standards to keep the classification of hedging activities:

Fair value hedge

a) On March 22, 2007, the Company contracted a CCS (Currency Swap) to cover the risk of exchange rate generated by the syndicated term loan for U.S. $ 110.2 million in which the Company will receive payments of 3 month Libor plus 150 basis points over U.S. $110.2 million notional and will pay a monthly rate of TIIE 28 days plus 135 basis points over Ps. 1,215,508 notional which includes the amortizations of principal. This transaction is under the fair value hedge accounting model.

Amounts in charts are expressed in millions

Maturity date	Notional amount (USD)	Notional amount (MXP)	Axtel receives	Axtel pays	Estimated fair value
February 29, 2012	U.S. $110.23	Ps. 1,216	Libor + 1.5	TIIE +1.35	U.S. $(2.4)

For the year ended December 31, 2007 the change in the fair value of the hedging activity of the syndicated term loan resulted in an unrealized loss amount of U.S. $ 3.1 million recognized in the comprehensive financial result, compensates by the change in the fair value of the debt valuated at December 31, 2007 in U.S. $ 2.9 million.

Cash flow hedge

a) On March 29, 2004, the Company entered into a derivative a Ps-USD CCS to hedge a portion of its U.S. dollar foreign exchange exposure resulting from the issuance of the U.S. $175 million 11% senior notes, which matures in 2013. Under this CCS transactions, Axtel will receive semiannual payments calculated based on the aggregate notional amount of U.S. $113.75 million at an annual U.S. rate of 11%, and the Company will make semiannual payments calculated based on the aggregate of Ps. 1,270,019 (nominal value) at annual rate of 12.30%.

b) Derived from the reopening of the issuance on March 2005 for U.S. $75 million and as a complement of the hedge strategy mentioned above, on June 6, 2005, the Company entered into a new derivative a Ps-USD CCS. The purpose of this agreement was to hedge the remaining portion of its U.S. dollar foreign exchange exposure resulting from the first issuance, and the totality of its U.S. $75 million issuance. Under this agreement, Axtel will receive semiannual payments calculated based on the aggregate notional amount of U.S. $136.25 million at an annual rate of 11%, and the Company will make semiannual payments calculated based on the aggregate of Ps. 1,480,356 (nominal value) at annual rate of 12.26%.

c) On February 3, 2007, the Company entered into a new derivative IOS ("Interest Only Swap"). The purpose of this agreement was to hedge the debt service from its new U.S. dollar bond issuance. Under this agreement, Axtel will receive semiannual payments calculated based on the aggregate notional amount of U.S. $275 million at a fixed annual rate of 7.625%, and the Company will make semiannual payments calculated based on the aggregate of Ps.3,038,750 (nominal value) at a fixed annual rate of 8.54%.

As of December 31, 2007, the CCS information is as follows:

Amounts in charts are expressed in millions

Maturity date	Notional Amount (USD)	Notional Amount (nominal value) (MXP)	Axtel Receives (USD)	Axtel Pays (MXP)	Estimated fair value
December 15, 2008	U.S. $ 113.75	Ps. 1,270	11.00%	12.30%	U.S. $ (1.6)
December 15, 2008	U.S. $ 136.25	Ps. 1,480	11.00%	12.26%	U.S. $ (1.5)
February 1, 2012	U.S. $ 275.00	Ps. 3,039	7.86%	8.54%	U.S. $ (4.2)

For the year ended December 31, 2007, the change in the fair value of these CCS is an unrealized loss amount of U.S. $1.7 million. This gain was recognized within the other comprehensive income section of equity, net of deferred taxes.

Derivatives registered as trading

The Company does not enter into any financial derivative instrument with any other purpose but hedging. The Company does not speculate using financial instruments.

However, the Company redeemed 35% of the issuance of U.S. $250 million derived from the issuances of debt of December, 2003 and March, 2005. In the face of this situation and originated by the closing of Swaps described in sections a) and b) from the paragraph "Cash flow hedges", the Company stayed with an "over-hedge" in these derivatives therefore it decided to cover this excess of hedge with an inverse operation and having the volatility of this portion being registered in the CFR. This operation is a CCSS (Currency Swap), in this transaction the Company receives 12.26% over a notional amount of Ps. 950.7 million and pays 11% over the notional amount of U.S. $87.5 million. According to the financial reporting standards this Swap does not comply with the requirements to be registered as a risk hedge, however it is considered as an economic hedge by the Company. The CCS information is as follows:

Amounts in charts are expressed in millions

Maturity date	Notional Amount (USD)	Notional Amount (MXP)	Axtel Receives (MXP)	Axtel Pays (USD)	Estimated fair value
December 15, 2008	U.S. $ 87.50	Ps. 950.7	12.26%	11.00%	U.S. $ 0.9

For the year ended December 31, 2007 the added value of U.S. $ 1.0 million of this operation was registered in the comprehensive financial result.

Embedded derivatives

The Company has conducted an initiative to identify, analyze and segregate if applicable, those contractual terms and clauses that implicitly or explicitly embed derivatives characteristics within financial or non financial agreements. These instruments are commonly known as embedded derivatives and do follow the same accounting treatment as of those free-standing contractual derivatives. Based on the above, the Company identified and recognized an amount of Ps. 1,261 from embedded derivatives effects during 2007 in the accounting records.

(9) Related parties transactions

The main transactions with related parties, during the years ended December 31, 2007 and 2006 are as follows:

		2007	2006
Telecommunication services revenue	Ps.	595,055	94,309
Commissions and administrative services Banamex		19,490	5,801
Interest expense		146,894	12,757
Commissions for debt restructure		-	41,016
Lease expense		24,198	24,452
Banamex deferred revenue		437,918	724,767
Installations services expense		7,429	6,425
Others		2,594	-

During December 2006, Avantel received from Banamex approximately U.S. $40 million in relation to diverse contracts of services between them. One of the contracts is to provide services of technical support on site during 60 months and the second contract consists in the prepayment of 13 months of recurring telephony services for three years. During 2007, Avantel received from Banamex approximately U.S. $ 39 millions in relation to the contract of the prepayment of 13 months of recurring telephony services.

The accounts receivable and accounts payable with related parties as of December 31, 2007 and 2006, included in the accounts receivable, accounts payable and accrued liabilities, respectively are as follows:

		2007	2006
Due from:			
Operadora de Parques y Servicios, S.A. de C.V.	Ps.	1,996	4,942

		2007	2006
Due to:			
GEN Industrial, S.A. de C.V.	Ps.	45	-
Instalaciones y Desconexiones Especializadas, S.A. de C.V.		329	-
Neoris de Mexico, S.A. de C.V.		8,423	-
Total	Ps.	8,797	-

At December 31, 2007 the Company has debt as described in note 16.

(10) Inventories

Inventories consist of the following:

		2007	2006
Telephones and caller identification devices	Ps.	17,308	32,643
Installation material		18,653	10,220
Tools		11,240	9,164
Network spare parts		54,313	35,613
Directories and others		66,375	15,430
Total inventories	Ps.	167,889	103,070

(11) Property, systems and equipment

Property, systems and equipment are as follows:

		2007	2006	Useful Lives
Land	Ps.	162,100	168,202	
Building		344,377	355,908	25 years
Computer and electronic equipment		1,849,492	1,542,930	3 years
Transportation equipment		88,791	107,764	4 years
Furniture and fixtures		138,060	120,733	10 years
Network equipment		18,070,984	16,376,096	6 a 28 years
Leasehold improvements		244,930	198,324	5 a 14 years
Construction in progress		1,475,384	1,130,535	
Advances to suppliers		19,646	28,501	
		22,393,764	20,028,993	
Less accumulated depreciation		8,713,893	5,992,392	
Property, systems and equipment, net	Ps.	13,679,871	14,036,601	

The Company has capitalized Comprehensive Financial Result ("CFR") in construction in progress as a complement of the acquisition cost, for an accumulated amount of Ps. 13,006, as of December 31, 2007. The CFR capitalized during 2007 amounted to Ps. 10,545. During 2006 the Company did not capitalized CFR.

(12) Pre-operating expenses, net

The capitalized pre-operating expenses incurred up to June 1999 and expenses incurred during 2000, 2004, 2005 and 2006 in opening new operations are as follows:

		2007	2006
Salaries	Ps.	231,963	231,963
Legal and financial advisory		118,238	118,238
Operating expenses		96,649	96,649
Depreciation		10,275	10,275
Comprehensive financing result		(25,929)	(25,929)
Service and other revenues		(14,657)	(14,657)
Other		40,880	40,880
		457,419	457,419
Less accumulated amortization		345,522	297,828
Pre-operating expenses, net	Ps.	111,897	159,591

(13) Investment in shares of associated company

As of December 31, 2007, the investment in shares of associated company through Avantel is represented by a non-controlling 50% interest in the equity shares of Conectividad Inalámbrica 7GHZ, S. de R.L. The operation of this company consists in providing radio communication services in Mexico under the concession granted by the SCT. Such concession places certain performance conditions and commitments to this company, such as (i) filing annual reports with the SCT, including identifying main stockholders of the Company, (ii) reporting any increase in common stock, (iii) providing continuous services with certain technical specifications, (iv) to present a code of marketing strategies, (v) to register rates of service, (vi) to provide a bond and (vii) fulfilling the program of investments presented when the company solicited the concession.

Since the Company does not have effective control, this investment is accounted for by the equity method.

Condensed financial information of the associated company as of December 31, 2007 and 2006 is as follows:

Balance Sheet:		**2007**	**2006**
Current assets	Ps.	12,972	7,955
Intangible assets		17,586	20,909
Total assets		30,558	28,864
Total liabilities		60	611
Stockholders' equity	Ps.	30,498	28,253
50% equity interest	Ps.	15,249	14,127

Statement of operations:

Revenues from rent of frequency bands	Ps.	5,602	503
Costs of services and operating expenses		(2,088)	(151)
Operating income		3,514	352
Comprehensive financial results		(368)	2,953
Deferred income tax		(287)	-
Net income	Ps.	2,859	3,305
Equity in income of associated company	Ps.	1,430	1,652

As of December 31, 2007 and 2006, the liabilities of the Company with Conectividad Inalámbrica were Ps. 5,194 and Ps. 853, respectively.

(14) Intangible assets

Intangible assets consist of the following:

		2007	2006
Telephone concession rights from Axtel	Ps.	1,073,135	1,073,135
Telephone concession rights from Avantel		114,336	150,417
Customers list		324,183	401,111
Tradename "Avantel"		186,074	200,555
		1,697,728	1,825,218
Less accumulated amortization		639,524	402,404
Intangible assets, net	Ps.	1,058,204	1,422,814

Concessions rights of the Company

The Company has either obtained concessions as described below to offer telecomunications services or auctioned the following licenses over the spectrum of frequencies necessary to provide the services:

- On June, 1996 Axtel obtained a concession to offer local and long distance telephony services, for a period of thirty years. To maintain this concession the Company needs to comply with certain conditions. It can be renewed for another period of thirty years;
- On September 15, 1995 Avantel obtained a concession to offer local and long distance telephony services, for a period of thirty years. To maintain this concession the Company needs to comply with certain conditions. It can be renewed for another period of thirty years;
- Two concessions in 929 MHz to offer mobile paging services;

- 50MHz in the 3.4GHz band. The licenses obtained allow nationwide coverage. The investment was Ps. 831,043 for a period of twenty years with an extension option;
- 56 MHz in the 7 GHz band, countrywide coverage, for a point-to-point transport (through the property of 50% of Conectividad Inalambrica 7GHz, S. de R.L.);
- 60MHz for Point-to-Multi-Point in the 10.5GHz band nationwide. The acquisition of these twenty-year concessions, with an extension option, represented an investment of Ps. 160,931 for the Company;
- 120 MHz in three regions in 10.5 GHz band, for point-to-multi-point access (Concession originally granted to Avantel);
- 112MHz for Point-to-Point in the 15GHz band and a 100MHz in the 23GHz band, both with nationwide coverage. The acquisition of these twenty-year concessions, with an extension option, represented an investment of Ps. 81,161 for the Company;
- 56 MHz in the 15 GHz band, nationwide coverage, for point-to-point access and transport (Concession originally granted to Avantel);
- 268 MHz in the 23 GHz band, nationwide coverage, for point-to-point access and transport (Concession originally granted to Avantel);
- 112 MHz in the 37 to 38.6 GHz band, in 5 regions, for point-to-point transport (Concession originally granted to Avantel).

Each license of spectrum has a period of life of 20 years and it can be renovated for additional periods of 20 years as long as Axtel complies with all of its obligations, with all conditions imposed by the law and with any other condition that SCT imposes.

The concessions allow the Company to offer the following services:

- Local telephony service;
- National long distance telephony service;
- Selling or leasing of network capacity for the generation, transmission or reception of data, signs, images, voice, sounds and other type of information of any kind;
- Selling or leasing network capacity from other countries, including the leasing of digital circuits;
- Value added services
- Operator services
- Mobile paging services
- Data services, video, audioconferences and videoconferences, except to restricted TV, continuous services of music or digital audio services; y
- Prepaid phone cards or credit phone cards

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

Intangible assets arising from the acquisition of Avantel

Derived from the acquisition of Avantel, the Company recorded certain intangible assets such as: trade name “Avantel”, customers relationships and telephone concession rights, whose value was determined by using an independent external expert appraiser at the acquisition date and accounted for in accordance to FRS B-7. The trade name and customers relationships are amortized in over a three-year period; meanwhile the concession is amortized over the remaining term of the concession on a straight-line basis.

(15) Other assets

Other assets consist of the following:

		2007	2006
Notes issuance costs	Ps.	143,730	99,533
Deferred financing costs		41,016	89,826
Telmex / Telnor infrastructure costs		68,279	68,279
WTC concession rights		22,474	22,474
Guarantee deposits		35,572	44,737
Others		97,196	49,585
		408,267	374,434
Less accumulated amortization		134,254	65,227
Other assets, net	Ps.	274,013	309,207

Notes issuance costs

Notes issuance costs mainly consists of legal and audit fees, documentation, advising, printing, rating agencies, registration fees and out of pocket expenses incurred in relation to the issuance of notes payable and are amortized on a straight line basis over the life of the related debt.

Telmex / Telnor infrastructure costs

As part of the opening of the telecommunications market in Mexico, new telecommunications companies must have interconnection with Telefonos de Mexico (Telmex) and Telefonos del Noroeste (Telnor). These two companies made agreements with the new entrants by which they must compensate Telmex and Telnor for their investment in infrastructure that Telmex / Telnor made in order to provide interconnection for the new telephone companies in Mexico.

Deferred financing costs related with the acquisition of Avantel

The deferred financing costs incurred in the acquisition of Avantel will be amortized based upon the terms of the loans that they are related.

(16) Long-term debt

Long-term debt as of December 31, 2007 and 2006 consist of the following:

		2007	2006
U.S.$275,000,000 in aggregate principal amount of 75/8% Senior Unsecured Notes due 2017. Interest is payable semiannually in February 1 and August 1 of each year.	Ps.	2,988,205	-
U.S.$162,500,000 in aggregate principal amount of 11% Senior Unsecured Notes due 2013. Interest is payable semiannually in arrears on June 15, and December 15 of each year.		1,765,758	1,834,631
Premium on Senior Notes issuance		27,291	32,319
Unsecured Bridge Loan with Credit Suisse, Cayman Island Branch, as the administrative agent, for an aggregate amount of U.S.$310.9 million, with an interest rate of LIBOR+125 basis points, maturing in May 2008.		-	3,510,636
Unsecured Syndicated Loan with Citibank, N.A., as the administrative agent, and Banamex as the peso agent, with a peso tranche in the aggregate amount of Ps.1,042.4 and a U.S. dollar tranche in the aggregate amount of U.S.$110.2. The final maturity date is February 2012, with quarterly principal repayments starting February 2010, with an interest rate for the tranche in pesos of TIIE+150 basis points, and the tranche in U.S. dollar of LIBOR+150 basis points.		2,240,091	2,325,992
Change in the fair value of syndicated loan		(31,023)	-
Capacity lease agreement with Teléfonos de Mexico, S.A.B. de C.V. of approximately Ps.800,000 payable monthly and expiring in 2011.		534,271	593,702
Other long-term financing with several credit institutions with interest rates fluctuating between 6.0% and 7.5% for those denominated in dollars and TIIE (Mexican average interbank rate) plus three percentage points for those denominated in pesos.		120,525	160,209
Total long-term debt		7,645,118	8,457,489
Less current maturities		160,163	163,207
Long-term debt, excluding current maturities	Ps.	7,484,955	8,294,282

Annual installments of long-term debt are as follows:

Año		Importe
2009	Ps.	40,561
2010		1,060,740
2011		1,057,763
2012 and thereafter		5,325,891
	Ps.	7,484,955

As of December 31, 2007 and 2006 long-term debt principal characteristics are as follows:

On February 2, 2007, the Company issued U.S. $275 million of 10-year unsecured senior notes. This issuance matures on February 1, 2017. Interest will be payable semiannually and the senior notes bear interest at 7 5/8 % beginning on August 1, 2007. The proceeds of this issuance were used to prepay the bridge financing related to the December 2006 acquisition of Avantel.

On December 4, 2006, the Company entered into an Unsecured Bridge Loan Facility with Credit Suisse, Cayman Island Branch, as the Administrative Agent, for an aggregate amount of U.S. $310,950,000. The bridge loan facility matures eighteen months after the initial drawdown date. With an interest rate of LIBOR +125 basis points. This loan was prepaid on February 2, 2007. Certain subsidiaries of the Company guaranteed this facility.

On December 4, 2006, The Company entered into an Unsecured Credit Agreement with Citibank, N.A. as the Administrative Agent and Banamex as the Peso Agent, and it was modified later on February 23, 2007, with a peso tranche in the aggregate amount of Ps. 1,042,362,416 and a U.S. dollar tranche in the aggregate amount of U.S. $ 110,225,133. The credit agreements bear interest rate at LIBOR + 150 basis points for the tranche in U.S. dollar and TIIE + 150 basis points for the peso tranche. Avantel, S de R.L. de C.V., Avantel Infraestructura, S. de R.L. de C.V. and Adequip, S.A. guarantee this credit agreement.

On February 22, 2006 the Company redeemed U.S. $87,500,000 aggregate principal amount of its 11% senior notes due 2013, or 35% of the U.S. $250,000,000 original aggregate principal amount of the notes. The redemption was made at a price of 111% of the principal amount of the notes, plus accrued and unpaid interest to the redemption date. The premium paid on this transaction was U.S. $ 9.6 million, which was recorded in the statement of operations as part of the comprehensive financing result.

On October 1, 2006, Avantel Infraestructura, S. de R.L. a subsidiary of Axtel S.A.B. de C.V. from December 4, 2006 entered into a capacity lease agreement with Teléfonos de México, S.A.B. de C.V. for purposes of connecting the installations of Avantel and those of Telmex in certain cities by using dedicated links of data for an amount of approximately Ps. 800,000. The monthly lease payment for this contract is approximately Ps. 15 million.

Avantel evaluated this lease agreement and determined that the present value of the minimum future payments is substantially equal to the market value of the infrastructure and dedicated equipment. Such market value was determined by an independent expert telecommunications appraiser registered within the COFETEL. Avantel recorded the lease as a capital lease according to FRS D-5.

Some of the debt agreements that remain outstanding establish certain covenants, the most significant of which refer to limitations on dividend payments and comprehensive insurance on pledged assets. For the year ended December 31, 2007, the Company was in compliance with all of its covenants.

(17) Other accounts payable

As of December 31, 2007 and 2006 other accounts payable consist of the following:

		2007	2006
Guarantee deposits (note 22(a))	Ps.	141,261	146,770
Interest payable (note 22(a))		72,430	58,598
Labor reserves		3,701	122,955
Guarantee deposit (SR Telecom)		69,631	-
Other		106,983	182,882
	Ps.	394,006	511,205

(18) Labor obligations

The cost of the obligations and other elements of seniority premiums, severance payments and pensions mentioned in note 3(l) have been determined based on independent actuarial calculations as of December 31, 2007 and 2006.

The components of the net periodic cost for the years ended December 31, 2007 and 2006 are as follows:

		2007		2006		
		Seniority Premium	**Severance payments**	**Seniority Premium**	**Severance payments**	**Pensions**
Net periodic cost:						
Labor cost	Ps.	1,677	6,019	975	4,156	-
Financial cost		281	1,296	151	772	-
Amortization of transition obligation		1	3,453	1	3,446	-
Variances in assumptions and experience adjustments		(53)	(1,782)	47	72	-
Inflationary effect		71	359	48	338	-
Net periodic cost before Avantel's acquisition		1,977	9,345	1,222	8,784	-
Labor cost of Avantel		-	-	46	338	2,085
Net periodic cost	Ps.	1,977	9,345	1,268	9,122	2,085

The actuarial present value of plan benefit obligations is as follows:

		2007		2006		
		Seniority premium	**Severance payments**	**Seniority premium**	**Severance payments**	**Pensions**
Present benefit obligation	Ps.	10,931	41,429	4,567	24,004	-
Present value of benefits attributable to future salary increases		662	1,843	331	1,075	-
Projected benefit obligation (PBO)		11,593	43,272	4,898	25,079	-
Items pending amortization:						
Variances in assumptions and experience adjustments		(548)	14,631	(1,179)	(3,087)	-
Transition liability		(3)	(11,502)	(5)	(15,059)	-
Minimum additional liability		71	-	852	17,070	-
Net projected liability recognized on the consolidated balance sheet before Avantel's acquisition		11,113	46,401	4,566	24,003	-
Obligations from Avantel's acquisition		-	-	7,757	32,766	35,145
Labor periodic cost		-	-	46	338	2,085
Reclassification to reserve for personal restructuring		-	-	(2,190)	(9,813)	(9,197)
Net projected liability	Ps.	11,113	46,401	10,179	47,294	28,033

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

Discount rate used to reflect the present value of obligations	4.00%	4.00%	4.00% -5.00%	4.00% -5.00%	5.00%
Rate of increase in future salary levels	1.00%	1.00%	0.75% -1.00%	0.75% -1.00%	0.75%
Amortization period of the transition liability	16 Years	6 Years	17 Years	6 Years	20.37 Years

On May 1, 2007, all the personnel of Avantel Recursos, S.A. de C.V. and Avantel Servicios, S.A. de C.V. passed to be part of Servicios Axtel, S.A. de C.V. and Instalaciones y Contrataciones, S.A. de C.V., respectively, transferring with it, all the obligations and rights in labor matter that the personnel had until such date on each of the companies substituted. As part of the homologation of benefits, the pension plan belonging to personnel transferred was concluded, because it does not exist such benefit in the enterprises were the personnel were transferred.

(19) Income tax (IT), tax on assets (TA), employee statutory profit sharing (ESPS) and tax loss carryforwards

The parent company and its subsidiaries file their tax returns on a stand-alone basis, and the consolidated financial statements show the aggregate of the amounts determined by each company.

In accordance with the current tax legislation, companies must pay either the IT or TA, whichever is greater. Both taxes recognize the effects of inflation, in a manner different from financial reporting standards.

On October 1, 2007 new laws were published, a number of tax laws were revised, and additionally a presidential decree was issued on November 5, 2007, which will come into effect on January 1, 2008. The most important changes are: (i) elimination of the Asset Tax Law and (ii) the introduction of a new tax (Flat Rate Business Tax or IETU) which is based on cash flows and limits certain deductions; additionally, certain tax credits are granted mainly with respect to inventories, salaries taxed for IT purposes and social security contributions, tax losses arising from accelerated deductions, recoverable asset tax, and deductions related to investments in fixed assets, deferred charges and expenses. The IETU rate is 16.5% for 2008, 17% for 2009 and 17.5% for 2010 and thereafter.

Accordingly, beginning in 2008, companies will be required to pay the greater of IETU or IT. If, IETU results, the payment will be considered final i.e. not subject to recovery in subsequent years (with certain exceptions).

At December 31, 2007 the Company has evaluated according to Financial Reporting Standards Interpretation (INIF-8 "Efectos del Impuesto Empresarial a Tasa Unica"), after the evaluation the Company estimates that the tax payable in future years will be IT, deferred tax effects as of December 31, 2007 have been recorded on the IT basis.

The TA law establishes a 1.8% tax on assets adjusted for inflation in the case of inventory, property, systems and equipment and net of certain liabilities in accordance with law. TA levied in excess of IT for the year can be recovered in the succeeding ten years, updated for inflation, provided that in any of such years IT exceeds TA.

Effective January 1, 2002 a new Income Tax Law had been enacted, which provided for a 1% annual reduction in the income tax rate beginning in 2003, so that the income tax rate would have been 32% in 2005. In December 2004 the Mexican Congress approved changes to the Income Tax Law where the tax rate for 2005 was further reduced to 30%. Also, for years 2006 and 2007 the tax rates will decrease to 29% and 28%, respectively. Consequently, the deferred income taxes were calculated assuming a 28% tax rate for assets and liabilities. The effects of the reduction in the deferred income tax asset calculation for 2006 were Ps. 12,055.

The tax expense attributable to the income before IT differed from the amount computed by applying the tax rate of 28% in 2007 and 29% in 2006 to pretax income, as a result of the items mentioned below:

		2007	2006
Computed "expected" tax expense	Ps.	(244,374)	(97,203)
Increase (decrease) resulting from:			
Effects of inflation, net		(1,432)	(9,179)
Change in valuation allowance		(101,463)	2,649
Deferred employees' profit sharing		13,594	12,055
Immediate deduction effect		(43,550)	(32,161)
Non-deductible expenses		(5,757)	-
Other		(218)	6,289
IT expense	Ps.	(383,200)	(117,550)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2007 and 2006 are presented below:

		2007	2006
Deferred tax assets:			
Net operating loss carryforwards	Ps.	968,090	1,426,521
Allowance for doubtful accounts		361,402	319,781
Accrued liabilities		479,781	337,747
Recoverable AT		418,851	332,540
Premium on bond issuance		10,179	12,719
Fair value of derivative instruments		17,090	12,504
Total gross deferred tax assets		2,255,393	2,441,812
Less valuation allowance		877,001	775,538
Net deferred tax assets		1,378,392	1,666,274
Deferred tax liabilities:			
Property, systems and equipment		63,486	507,118
Telephone concession rights		171,848	232,207
Intangible and other assets		206,969	306,072
Total deferred tax liabilities		442,303	1,045,397
Deferred tax assets, net	Ps.	936,089	620,877

The rollforward for the net deferred income tax asset for the years ended December 31, 2007 and 2006 is presented below:

		2007	2006
Balances at beginning of year	Ps.	620,877	18,562
Deferred IT expense		(284,381)	(112,656)
Deferred IT of derivative financial instruments		4,586	(11,903)
Deferred IT from Avantel's acquisition		595,007	726,874
Balances at end of year	Ps.	936,089	620,877

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon of future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. In order to fully realize the deferred tax asset, the Company will need to generate future taxable income of approximately Ps.3,343,175 prior to the expiration of the net operating loss carryforwards in various dates as disclosed below. Taxable income for the years ended December 31, 2007 and 2006 were Ps.1,502,050 and Ps.1,040,353, respectively. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2007. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced. As of December 31, 2007 and 2006, a deferred tax asset valuation allowance was established for a portion of the tax loss carryforwards from the subsidiaries and TA from the Company.

According to the IT law, the tax loss of a year, restated by inflation, may be carried to the succeeding ten years. The tax losses have no effect on ESPS. As of December 31, 2007, the tax loss carryforwards expire as follows:

Year		Inflation-adjusted tax loss carryforwards	Recoverable TA
2008	Ps.	1,177,505	-
2009		463,804	-
2010		367,233	-
2011		146,863	70,004
2012		663,555	50,451
2013		454,992	76,966
2014		92,634	72,514
2015		11,489	31,307
2016		75,263	31,298
2017		4,128	86,311
	Ps.	3,457,466	418,851

The tax effects of temporary differences that give rise to deferred employee's profit sharing as of December 31, 2007 and 2006 are presented below:

		2007	2006
Deferred ESPS assets:			
Accrued liabilities	Ps.	2,013	13,793
Accrued for labor obligations		6,554	13,871
Other payroll accruals		7,489	5,526
Net deferred ESPS asset		16,056	33,190
Deferred ESPS liabilities:			
Deferred income		1,876	3,942
Other		-	1,474
Total deferred ESPS liability		1,876	5,416
Deferred ESPS asset, net	Ps.	14,180	27,774

The rollforward for the net deferred employee's profit sharing asset for the years ended December 31, 2007 is presented below:

		2007	2006
Balances at beginning of year	Ps.	27,774	-
Deferred ESPS (expense) benefit		(13,594)	4,699
Deferred ESPS for acquisition of Avantel		-	23,075
Balances at end of year	Ps.	14,180	27,774

Total ESPS expense was calculated from the individual net income of each subsidiary that has employees. The tax profit for ESPS effects of these companies for the year ended December 31, 2007 and 2006 were Ps. 60,880 and Ps. 15,700, respectively.

(20) Stockholders' equity

The principal characteristics of stockholders' equity are described below:

(a) Common stock structure

At December 31, 2007, the Company has 8,769,353,223 shares issued and outstanding. Company's shares are divided in two Series: Series A and B; both Series have two type of classes, Class "I" and Class "II", with no par value. From the total shares, 96,636,627 shares are Series A and 8,672,716,596 shares are Series B. At December 31, 2007 the Company has only issued Class "I" shares. Also, at December 31, 2007 all shares issued are part of the fixed portion.

On August 31, 2007, the stockholders' approved a three-for-one stock split (the split). The split became effective on October 8, 2007. The proportional equity interest participation of existing stockholders did not change as a result of the split. For comparison purposes, the number of shares is presented adjusted for the effects of the split. Following table shows the effects of the Split:

	Number of Shares before the Split	Number of Shares after the Split
Series A Shares	32,212,209	96,636,627
Series B Shares	2,890,905,532	8,672,716,596
Total of Shares	2,923,117,741	8,769,353,223

The percentages of shares holding did not change derived from the Split. For effects of comparability the present note shows the number of shares after the Split.

The following represents a rollforward of Company's shares for the years ended December 31, 2007 and 2006:

	Issued and subscribed shares		Common stock	Additional paid-in capital
Balances as of December 31, 2005	8,522,810,598	Ps.	8,677,782	556,935
Issuance costs	-		-	(9,804)
Balances as of December 31, 2006	8,522,810,598		8,677,782	547,131
Shares issued and subscribed	246,542,625		192,280	194,540
Balances as of December 31, 2007	8,769,353,223	Ps.	8,870,062	741,671

As of December 31, 2007 and 2006, the common stock of the Company is Ps. 6,625,536 (nominal value), represented by 96,636,627 common shares, with no nominal value, Class "I", "A" Series, subscribed and paid, and 8,672,716,596 common shares, with no nominal value, Class "I", "B" Series, subscribed and paid.

In relation to our acquisition of Avantel also included a Series B Shares Subscription Agreement (''Subscription Agreement'') with Tel Holding, an indirect subsidiary of Citigroup, Inc., for an amount equivalent to up to 10% of Axtel's common stock. To give effect to the above, we obtained stockholder approval (i) to increase our capital by issuing Series B Shares in a number that was sufficient for Tel Holding to subscribe and pay for Series B Shares (in the form of CPOs) representing up to a 10% equity participation in Axtel; and (ii) for the subscription and payment of the Series B Shares that represented the shares subscribed for by Tel Holding and any shares subscribed for by stockholders that elected to subscribe and pay for additional Series B shares in exercise of their preferential right granted by the Mexican general Corporation law.

On December 22, 2006 pursuant to the Subscription Agreement, we received a notice from Tel Holding confirming that it acquired 533,976,744 Series B Shares (represented by 76,282,392 CPOs) from the Mexican Stock Exchange (Bolsa Mexicana de Valores, or ''BMV'') and confirming its intention to subscribe and pay for 246,453,963 new Series B Shares (represented by 35,207,709 CPOs). The new Series B Shares were subscribed and paid for, which we refer to herein as the ''Equity Subscription,'' by Tel Holding through the CPOs Trust on January 4, 2007. Tel Holding may not, subject to certain exceptions, transfer CPOs purchased in the Equity Subscription until January 3, 2008.

(b) Stockholders' equity restrictions

Stockholders' contributions, restated for inflation as provided in the tax law, totaling of Ps. 6,981,059 may be refunded to stockholders tax-free.

No dividends may be paid while the Company has a deficit. Some of the debt agreements mentioned in note 16 establish limitations on dividend payment.

(c) Comprehensive income

The comprehensive income reported on the statements of stockholders' equity represents the results of the total performance of the Company during the year, and includes the items mentioned below which, in accordance with Mexican GAAP, are reported directly in stockholders' equity, except for net income.

		2007	2006
Net income	Ps.	490,996	222,412
Fair value of derivative instruments		(16,378)	42,511
Deferred IT of derivative financial instruments		4,586	(11,903)
Comprehensive income	Ps.	479,204	253,020

(21) Telephone services and related revenues

Revenues consist of the following:

		2007	2006
Local calling services	Ps.	5,336,628	4,330,038
Long distance services		1,532,176	583,605
Data services		2,513,751	459,063
International traffic		1,210,233	552,791
Other services		1,597,822	750,215
	Ps.	12,190,610	6,675,712

(22) Commitments and contingencies

As of December 31, 2007, the Company has the following commitments and contingencies:

(a) On January 24, 2001 a contract was signed with Global Towers Communications Mexico, S. de R.L. de C.V. (Formerly Spectrasite Communications Mexico, S. de R.L. de C.V.) expiring on January 24, 2004, to provide the Company with services to locate, construct, set up and sell sites within the Mexican territory. As part of the operation, the Company agreed to build 650 sites, subject to approval and acceptance by Global Towers Communications Mexico, S. de R.L. de C.V. (Global Towers) and, in turn, sell or lease them under an operating lease plan.

On January 24, 2001, the Company received 13 million dollars from Global Towers to secure the acquisition of the 650 sites at 20,000 dollars per site. These funds are not subject to restriction as per the contract for use and destination. However, the contract provides for the payment of interest at a Prime Rate in favor of Global Towers on the amount corresponding to the number of sites that as of June 24, 2004 had not been sold or leased in accordance with the terms of the contract. The Company has recognized a liability to cover such interest for Ps. 72,430 and the principal amount, included within other accounts payable in the balance sheet as of December 31, 2007.

During 2002, Global Towers filed an Ordinary Mercantile Trial against the Company before the Thirtieth Civil Court of Mexico City, demanding the refund of the guarantee deposit mentioned above, plus interest and trial-related expenses. The Company countersued Global Towers for unilateral rescission of the contract. As of December 31, 2007, the trial is at a stage where evidence is being shown.

(b) On December 14, 2007, the Company subscribed an agreement with Metronet, S.A. de C.V., in which the trial that Metronet filed against the Company was terminated. From this date on there is neither contingency nor liability about this concept.

(c) 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.

(d) In compliance with commitments made in the acquisition of concession rights, the Company has granted surety bonds to the Federal Treasury and to the Ministry of Communication and Transportation amounting to Ps. 1,214 and to other service providers amounting to Ps. 819,648.

(e) The concessions granted by the Ministry of Communications and Transportation (SCT), mentioned in note 2, establish certain obligations to the Company, including, but not limited to: (i) filing annual reports with the SCT, including identifying main stockholders of the Company, (ii) reporting any increase in common stock, (iii) providing continuous services with certain technical specifications, (iv) filing monthly reports about disruptions, (v) filing the services' tariff, and (vi) providing a bond.

(f) In September and November 2005, Avantel Infraestructura filed before the Federal Court of Tax and Administrative Justice a lawsuit claiming the lack of answer to a petition previously filed by Avantel Infraestructura requesting confirmation of a criterion. This petition was based on the fact that Avantel is not obligated to pay for some governmental services established under article 232, fraction I, of the Federal Rights Law, with respect to the use of exclusive economic geographic zone in Mexico related to certain landing points in "Playa Niño", region 86, Benito Juarez Itancah Tulum, Carrillo Puerto, Quintana Roo. The file was turned for study and resolution to the 5th Metropolitan Regional Court of the Federal Court of Tax and Administrative Justice, which is still pending to be admitted.

(g) The Company leases some equipment and facilities under operating leases. Some of these leases have renewal clauses. Lease expense for 2007 and 2006 was Ps. 457,457 and Ps. 397,591, respectively.

The annual payments under these leases as of December 31, 2007 are as follows:

		Contracts in:	
		Pesos (thousands)	**Dollars (thousands)**
2008	Ps.	150,868	9,352
2009		136,816	7,658
2010		106,682	6,214
2011		84,823	5,637
2012		65,974	5,039
There after		338,001	14,761
	Ps.	883,164	48,661

(h) As of December 31, 2007, the Company has placed purchase orders which are pending delivery from suppliers for approximately Ps. 1,334,617.

(i) In connection to one of the contracts that Avantel signed with Telmex on October 2006, Avantel should issue a letter of credit in case of change of control in Avantel, situation that occurred during the month of November, at the moment that Axtel acquired the shares from Tel Holding and Banamex. The amount of this instrument is U.S. $60 million. Axtel is a guarantor of this instrument with Banamex, which issued the letter of credit.

(23) Recently issued accounting standards

The CINIF has issued the following FRS, effective for years beginning after December 31, 2007, and which do not provide for earlier application.

(a) FRS B-10 "Effects of inflation"- FRS B-10 supersedes Bulletin B-10 and its five amendments, as well as the related circulars and INIF (Interpretation of Financial Reporting Standards) 2. The principal considerations established by this FRS are: (i) the change in the value of the Investment Unit (UDI) may be used for determining the inflation for a given period; (ii) the election to use inventory replacement costs as well as specific indexation for fixed assets, is eliminated; (iii) an entity is only required to recognize the effects of inflation when operating in an inflationary economic environment (accumulated inflation equal to or higher than 26% in the most recent three-year period); and (iv) the accounts of Gain or Loss from Holding Non-monetary Assets (RETANM - Spanish abbreviation), Monetary Position Gains or Losses (REPOMO - Spanish abbreviation), and Deficit/Excess in Equity Restatement, will be reclassified to retained earnings, when the unrealized portion is not identified.

Management is still evaluating the impact of this FRS.

(b) FRS D-3 "Employee benefits"- FRS supersedes Bulletin D-3, the portion applicable to Employee Statutory Profit Sharing (ESPS) of Bulletin D-4 and INIF (Interpretation of Financial Reporting Standards) 4. The principal considerations established by this FRS are: (i) a maximum of five years is established for amortizing unrecognized/unamortized items, and the option is provided for immediate recognition of actuarial gains or losses in results of operations; (ii) the recognition of an additional liability and related intangible asset and any related item as a separate element of stockholders' equity, is eliminated; (iii) severance benefits are to be recognized directly in results of operations; and (iv) ESPS, including deferred ESPS, is to be presented in the statement of income as ordinary operations. Furthermore, FRS D-3 establishes that the asset and liability method required by FRS D-4 should be used for determining deferred ESPS, stating that any effects arising from the change are to be recognized in retained earnings, with no restatement of prior years' financial statements.

Management estimates that the initial effects of this new FRS will not be material.

(c) FRS D-4 "Tax on earnings"- FRS supersedes Bulletin D-4 and Circulars 53 and 54. The principal considerations established by this FRS are: (i) the balance of the cumulative IT effects resulting from the initial adoption of Bulletin D-4 in 2000 is reclassified to retained earnings; (ii) AT is recognized as a tax credit (benefit), rather than as a tax prepayment; and (iii) the accounting treatment of ESPS incurred and deferred is transferred to FRS D-3, as mentioned in paragraph (b) above.

Management estimates that the initial effects of this new FRS will not be material.

(d) FRS B-2 "Statement of cash flows"- FRS supersedes Bulletin B-12 and paragraph 33 of Bulletin B-16. The principal considerations established by this FRS are: (i) the statement of cash flows replaces the statement of changes in financial position; (ii) cash inflows and cash outflows are reported in nominal currency units i.e. the effects of inflation are not included; (iii) two alternative preparation methods (direct and indirect) are established, without stating preference for either method. Furthermore, cash flows from operating activities are to be reported first, followed by cash flows from investing activities and lastly cash flows from financing activities; (iv) captions of principal items are to be reported gross; and (v) disclosure of the composition of those items considered cash equivalents is required.

Year ended December 31, 2007 compared to Year ended December 31, 2006

Revenues

The Company's total revenues increased by Ps. 5,514.9 million, or 83%, in 2007, to Ps. 12,190.6 million, compared to Ps. 6,675.7 million in 2006.

Local Services. Local service revenues for the twelve months ended December 31, 2007 totaled Ps. 5,336.6 million, a growth of Ps. 1,006.6 million, or 23%, from the Ps. 4,330.0 million posted for the twelve months of 2006. The heading of monthly rents, measured services and value added services represented 63% of local service revenues during the twelve months ended December 31, 2007.

Long Distance Services. Long distance service revenues rose from Ps. 583.6 million in 2006 to Ps. 1,532.2 million for the period of twelve months ended December 31, 2007, an increase of Ps. 948.6 million, or 163%.

Data & Networks. For the period of twelve months ended December 31, 2007, data and network service revenues totaled Ps. 2,513.8 million, compared to Ps. 459.1 million posted for the twelve months of 2006, an increase of Ps. 2,054.7 million.

International Traffic. Revenues generated from international calls terminating in Mexico totaled Ps. 1,210.2 million in 2007, compared to Ps. 552.8 million in 2006, an increase of Ps. 657.4 million, or 119%.

Other Services. Revenues from other services represented 13% of total revenues, or Ps. 1,597.8 million, in 2007, an increase of Ps. 847.6 million, or 113%, over the Ps. 750.2 million posted in 2006.

Operating Data

Lines in Service. As of December 31, 2007, lines in service totaled 932 thousand, an increase of 140 thousand lines year-over-year. The total lines in service in the ten cities that began operations in 2007 represented 4% of the total number of lines in service as of December 31, 2007.

Internet Subscribers. As of December 31, 2007, the number of subscribers to AXTEL's Internet services totaled 109 thousand, an increase of 4% over the 105 thousand subscribers registered at yearend 2006. The number of broadband subscribers grew from 58 thousand as of December 31, 2006 to 75 thousand as of December 31, 2007, a growth of 29%.

Cost of Sales and Expenses

Cost of Sales. During the twelve months ended December 31, 2007, the Company's cost of sales was Ps. 4,504.7 million, an increase of Ps. 2,400.4 million over the previous year. The year-over-year growth in cost of sales was primarily due to increases of Ps. 1,168.2 million and Ps. 946.7 million in domestic long-distance interconnection and links and co-locations costs, respectively.

Operating Expenses. Operating expenses for the twelve-month period ended December 31, 2007 totaled Ps. 3,601.4 million, compared to Ps. 2,260.1 million for the twelve months of 2006, an increase of Ps. 1,341.3 million pesos year-over-year. This growth largely reflects increases of Ps. 734.6 million and Ps. 172.7 million in personnel expenses and maintenance expenses of offices, vehicles and equipment, respectively, related to AXTEL's new size and its geographical expansion into 10 new cities in 2007. Expenses for personnel represented 49% of total operating expenses during the twelve months ended December 31, 2007.

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