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

Consolidated Financial Statements

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)

(Translation from Spanish Language Original)

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Independent Auditors' Report

(Translation from Spanish Language Original)

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

We have audited the accompanying consolidated financial statements of Axtel, S.A.B. de C.V., and subsidiaries (the Company), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014 and the consolidated statements of comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

(Continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Axtel, S.A.B. de C.V., and subsidiaries, as of December 31, 2015 and 2014 and the consolidated results of their operations and consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Emphasis paragraphs

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

(a) As referred in note 22 a), on December 15, 2015 the Company published a prospectus on the Mexican Stock Exchange, by which made official the intention to conduct a merger agreement between the Company as the merging, with Onexa, SA de C.V. (Onexa) as a merged company. Onexa is the holding company for the capital stock of Alestra, S. de R.L. de C.V. The merger project was approved in January 2016 by the respectives Boards of Directors and Shareholders. In addition, on January 11, 2016 the Mexican Banking and Securities Comission (*Comisión Nacional Bancaria y de Valores*) ("CNBV") issued the exception to proceed with the merger without making a public offering. The merger became effective on February 15, 2016.

(b) As referred in note 22 a), on January 15, 2016, the Company signed a credit facility of U.S. 500 million and Ps.4,759 million to refinance all senior notes maturing in 2017, 2018 and 2020. Redemption became effective on February 19, 2016. The new loan matures in January 2019 for the portion in pesos and until February 2021 for the dollar portion.

(c) As referred in note 2 a), during 2015, the Company entered in several agreements about disputes held with other telecom carriers, as mentioned below:

    i. Through March 18 and May 27, 2015, the Company signed settlement with different mobile and long distance carriers by which it was agreed to terminate various disputes related to interconnection services. The benefit, net of legal fees and other incremental expenses, amounted Ps.534 million and is included in comprehensive income.

    ii. After agreements mentioned above, as described in notes 21 b) and 21 c), there are still contingencies related to interconnection costs rates for other exercises with mobile and long distance carriers. As of December 31, 2015, the difference between the amounts paid by the Company and the amounts billed by mobile carriers and one of their main suppliers amount to approximately Ps.257 million and Ps.468 million, respectively, before value added tax. At the date of this report, the Management of the Company and its legal advisor consider that they have enough elements to be favored in trials related to such contingencies.

(Continued)

(d) As referred in note 7 a), starting on January 1, 2015 and, as a result of several comprehensive analysis about changes in the technology of certain assets and new estimates of useful life, the Company adjusted the useful lives of certain types of assets from the network infrastructure. The adjustment indicated above has been applied prospectively as a change in accounting estimate, resulting in a decrease of approximately Ps.526 million in depreciation expense compared to 2014.

KPMG Cardenas Dosal, S. C.

R. Sergio López Lara

March 4, 2016
Monterrey, N. L., México

AXTEL, S.A.B. DE C.V. AND SUBSIDIARIES
Consolidated Statements of Financial Position
Years ended December 31, 2015 and 2014
(Thousands of Mexican pesos)

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

Assets	**Note**		**2015**	**2014**
Current assets:				
Cash and cash equivalents	8	Ps	2,575,222	2,697,835
Accounts receivable, net	9		2,893,017	2,426,167
Refundable taxes			19,824	48,629
Advance to suppliers			52,648	112,763
Inventories			53,069	67,097
Financial instruments	8e		378,099	121,999
Other accounts receivable			103,699	104,562
Other current assets	12		151,511	225,331
Total current assets			6,227,089	5,804,383
Long-term accounts receivable			128,613	230,752
Property, systems and equipment, net	10		13,216,179	12,961,543
Intangible assets, net	11		124,999	173,962
Deferred income taxes, net	17		2,103,961	1,675,202
Investments in associate			8,212	8,217
Other assets	12		119,586	131,039
Total assets		Ps	21,928,639	20,985,098
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities		Ps	2,676,819	2,347,302
Accrued interest			545,208	458,822
Value Added Tax and other taxes payable			642,530	363,351
Short-term debt	8 and 13b		130,000	130,000
Current maturities of long-term debt	13a		375,656	220,554
Deferred revenue	16		509,415	695,868
Other current liabilities			57,343	96,018
Provisions	15		190,100	-
Total current liabilities			5,127,071	4,311,915
Long-term debt	13a		12,475,950	10,645,447
Derivative financial instruments	8d		65,222	46,952
Other long term liabilities			112,340	216,039
Employee benefits			28,231	25,127
Deferred revenue	16		-	33,900
Total liabilities			17,808,814	15,279,380
Stockholders' equity:				
Common stock	18		6,861,986	6,728,342
Additional paid-in capital	18		644,710	644,710
Reserve for repurchase of own shares	18		90,000	90,000
Retained comprehensive deficit	18		(3,476,871)	(1,757,334)
Total stockholders' equity			4,119,825	5,705,718
Commitments and contingencies	21			
Total liabilities and stockholders' equity		Ps	21,928,639	20,985,098

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

AXTEL, S.A.B. DE C.V. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
Years ended December 31, 2015 and 2014
(Thousands of Mexican pesos except for the basic loss per share)

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	Note		2015	2014
Telephone services and related revenues	19	Ps	10,150,438	10,597,003
Operating costs and expenses:				
Cost of sales and services			(2,299,862)	(3,097,105)
Selling and administrative expenses	19		(4,719,771)	(4,476,849)
Depreciation and amortization	10 and 11		(2,618,567)	(3,435,082)
Effect of settlements with telecom carriers	2a		534,240	-
Other operating expenses			(437,321)	(87,670)
Operating income (loss)			609,157	(499,703)
Interest expense	10 and 13		(1,236,308)	(875,745)
Interest income			36,929	16,615
Foreign exchange loss, net			(1,659,066)	(1,073,210)
Change in the fair value of financial instruments, net	8		163,706	(21,272)
Net finance costs			(2,694,739)	(1,953,612)
Equity in loss of associated company			(5)	(3,423)
Loss before income taxes			(2,085,587)	(2,456,738)
Income taxes:				
Current	17		(61,305)	(34,459)
Deferred	17		428,537	572,596
Total income tax benefit			367,232	538,137
Net loss		Ps	(1,718,355)	(1,918,601)
Other comprehensive income items:				
Actuarial result	18c		(1,182)	(3,791)
Comprehensive loss		Ps	(1,719,537)	(1,922,392)
Weighted average number of common shares outstanding			9,185,204,571	8,871,168,855
Basic loss per share		Ps	(0.19)	(0.22)

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

AXTEL, S.A.B. DE C.V. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended December 31, 2015 and 2014
(Thousands of Mexican pesos)

These financial statements have been translated from Spanish language original
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		2015	2014
Cash flows from operating activities:			
Net loss	Ps	(1,718,355)	(1,918,601)
Adjustments for:			
Income taxes		(367,232)	(538,137)
Foreign exchange loss, net		1,659,066	1,073,210
Depreciation		2,563,348	3,380,966
Amortization		55,219	54,116
Impairment loss recognized on trade receivables		154,621	173,941
Gain on sale of property, system and equipment		(256,467)	(1,312)
Allowance for obsolete and slow-moving of inventories		12,047	1,967
Equity in loss of associated company		5	3,423
Interest expense		1,236,308	875,745
Amortization of premium on bond issuance		(2,213)	(1,601)
Fair value change and settlement of financial instruments		(163,706)	21,272
		3,172,641	3,124,989
Movements in working capital:			
(Increase) decrease in accounts receivable and other accounts receivable		(430,559)	393,665
Decrease in inventories		14,028	39,215
Increase (decrease) in accounts payable and other accounts payable		670,539	(491,729)
(Decrease) increase in deferred revenue		(220,352)	111,953
Cash generated from operating activities		3,206,297	3,178,093
Taxes paid		(85,964)	(52,205)
Net cash from operating activities		3,120,333	3,125,888
Cash flows from investing activities:			
Acquisition and construction of property, systems and equipment		(2,011,430)	(2,837,222)
Sale of property, systems and equipment		129,823	5,176
Increase in financial instruments		(34,918)	(19,924)
Other assets		(8,893)	4,752
Net cash used in investing activities		(1,925,418)	(2,847,218)
Cash flows from financing activities:			
Interest paid		(1,165,405)	(720,303)
Proceeds of notes		-	1,887,747
Proceeds of bank loans		-	460,000
Payments of bank loans		-	(330,000)
Other loans, net		(399,611)	(327,401)
Net cash flow (used in) generated by financing activities		(1,565,016)	970,043
Net (decrease) increase in cash and cash equivalents		(370,101)	1,248,713
Cash and cash equivalents at the beginning of the year		2,697,835	1,292,263
Effects of exchange rate fluctuations on cash and cash equivalents held		247,488	156,859
Cash and cash equivalents at the end of the year	Ps	2,575,222	2,697,835

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

AXTEL, S.A.B. DE C.V. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
Years ended December 31, 2015 and 2014
(Thousands of Mexican pesos)

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

		Capital stock	Additional paid-in capital	Reserves for repurchase of own shares	Retained comprehensive earnings (Deficit)	Total stockholders' equity
Balances as of December 31, 2013	Ps	6,627,890	644,710	162,334	92,724	7,527,658
Increase of capital stock (note 18a)		100,452	-	-	-	100,452
Change on reserves for repurchase of own shares		-	-	(72,334)	72,334	-
Comprehensive loss (note 18c)		-	-	-	(1,922,392)	(1,922,392)
Balances as of December 31, 2014		6,728,342	644,710	90,000	(1,757,334)	5,705,718
Increase of capital stock (note 18a)		133,644	-	-	-	133,644
Comprehensive loss (note 18c)		-	-	-	(1,719,537)	(1,719,537)
Balances as of December 31, 2015	Ps	6,861,986	644,710	90,000	(3,476,871)	4,119,825

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

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

(1) Reporting entity

Axtel, S.A.B. de C.V. and Subsidiaries (AXTEL and/or The Company) was incorporated in México as a corporation. The corporate address of the Company is Blvd. Díaz Ordaz km 3.33 L-1, Colonia Unidad San Pedro, 66215 San Pedro Garza García, Nuevo León, Mexico.

The Company's consolidated financial statements for the years ended December 31, 2015 and 2014, includes The Company and subsidiaries (collectively referred as "the Company" and individually as "entities of the Company")

The Company is engaged in operating and/or exploiting a public telecommunication network to provide voice, sound, data, text, and image conducting services, and local, domestic and international long-distance calls and pay-tv services. A concession is required to provide these services and carry out the related activities, (see notes 5 (k) and 11). In June 1996, the Company obtained a concession from the Mexican Federal Government to install, operate and exploit public telecommunication networks for an initial period of thirty years.

(2) Significant events

a) __Agreements about disputes related to interconnection services__

During 2015, the Company entered in several agreements about disputes held with other telecom operators, as mentioned below:

- On March 18, 2015 the Company signed a settlement with América Móvil, S.A.B. de C.V., ("AMX") and its subsidiary Radiomóvil Dipsa S.A. de C.V. ("Telcel"), in which the parties agreed to terminate disputes relating with interconnection services. As part of the agreement, Axtel and Telcel entered into interconnection agreements for the period 2005-2015. Also Axtel, Telcel and Telefonos de Mexico S.A.B. de C.V. ("Telmex") agreed to the withdrawal of several disputes on interconnection issues.

  Derived from these agreements and after settled in favor and against the various amounts that were in dispute and/or unpaid, the Company signed agreements for marketing or resale of telecommunications services and for access and use of some infrastructure with Telcel and Telmex, respectively.

- Another agreement was also held on the same day, the Company and Iusacell Group ("Iusacell") signed an agreement whereby both parties are terminated disputes relating to interconnection services for 2005-2010. During the agreement, the Company and Iusacell also signed several trade agreements for telecommunications infrastructure for mutual benefit.

- Finally, on May 27, 2015, the Company signed an agreement with Pegaso PCS, S.A. de C.V. ("Telefonica Mexico") in which the parties agreed to terminate disputes relating to interconnection services for the period of 2005 to 2011.

(Thousands of Mexican pesos)

Derived from these agreements and after settled in favor and against the several amounts that were in dispute and/or unpaid, the Company obtain a benefit, net of legal fees and other incremental expenses, of Ps. 534,240 included in the Statement of Comprehensive Income within operating costs and expenses, in the effect of agreements with telecom operators item.

b) Issuance of secured bonds

On September 17, 2014, The Company completed the reopening of the secured bonds issuance due in 2020 for 150 million United States dollars (U.S.) priced at 100.25% of the principal amount with initial interest rate of 8% which will be increase to 9% starting in the second year, and due in 2020. Interest is payable semi-annually in February and August of each year.

(3) Consolidation of financial statements

Based on IFRS 10, *"Consolidated Financial Statements"*, the consolidated financial statements include those of Axtel, and those of the entities over which it exercises control on the financial and operating policies. The subsidiaries included in the consolidated interim financial statements are presented as follows:

Subsidiary	Activity	% Equity Interest
Instalaciones y Contrataciones, S.A. de C.V. ("Icosa")	Administrative services	100%
Servicios Axtel, S.A. de C.V. ("Servicios Axtel")	Administrative services	100%
Avantel, S. de R.L. de C.V. ("Avantel")	Telecommunication services	100%
Avantel Infraestructura S. de R.L. de C.V. ("Avantel Infraestructura")	Telecommunication services	100%
Telecom Network, Inc ("Telecom")	Telecommunication services	100%
Avantel Networks, S.A. de C.V. ("Avantel Network")	Telecommunication services	100%
Axes Data, S.A. de C.V. ("Axes Data")	Administrative services	100%
Contacto IP, S.A. de C.V. ("Contacto IP")	Administrative services	100%

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

(4) Basis of preparation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were authorized for issue by the Company's Executive Administrative Director of Administration on March 4, 2016.

Under the Mexican General Corporation Law (*"Ley General de Sociedades Mercantiles"*) and bylaws of the Company, shareholders are empowered to amend the financial statements after issuance. The accompanying financial statements will be submitted for approval at the next Shareholders' Meeting.

b) Basis of measurement

The information presented in the consolidated financial statements has been prepared on a historical cost basis, except for certain financial instruments which were recorder at fair value and the liability recognized for employee benefit since this is recognized at the present value of the obligation.

c) Functional and presentation currency

These consolidated financial statements are presented in thousands of Mexican pesos, which is the Company's functional currency. All financial information presented in pesos or "Ps.", are thousands of Mexican pesos; likewise, references to dollars or U.S., or USD refer to thousands of dollars of the United States of America and has been rounded to the nearest unit (MPs.), unless indicated otherwise.

d) Presentation of the consolidated statement of comprehensive income

The Company has elected to analyze expenses recognized in profit and loss based on functions, as the Company believes that in this way the information presented is reliable and more relevant. The Company presents the operating income (loss) since considers it as a significant performance measurement for users of financial information. According to IFRS, the inclusion of subtotals as "operating income (loss)" and the arrangement of the income statement differ significantly by industry and company, according to specific needs. Income and costs that are of an operational nature are presented in this item.

The "Other operating expenses" item in the income statement consists mainly of income and expenses that are not directly related to the main activities of the Company, or that are non-recurring nature, such as costs of settlement of staff and clean-up of old balances.

e) Presentation of the consolidated statement of cash flows

The consolidated statements of cash flows of the Company are presented using the indirect method.

The statements of cash flows present cash inflows and outflows, excluding unrealized foreign exchange effects, and the following transactions that did not represent generation or use of cash:

- Increase in Property, systems and equipment during 2015 for approximately Ps.534,755, related to a capacity lease agreement (IRU), note 13 (a).

- Increase in Property, systems and equipment during 2015 and 2014 for approximately Ps.112,979 and Ps.287,084, respectively, related to financial leases note 13 (a).

- Swap of fiber optic, amounting to Ps.141,921 arising from agreement signed with Iusacell, as mentioned in note 2 (a).

- Increase in common stock for Ps.133,645 and Ps.100,452 during 2015 and 2014, respectively, related to the conversion option of bonds mentioned in notes 13 (a) and 18 (a).

(5) Significant accounting policies

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

a) Transactions eliminated in consolidation

The balances and transactions between the entities of the Company, as well as unrealized income and expenses, have been eliminated in preparing the consolidated financial statements.

b) Foreign currency transactions

Based on IAS 21, *"Effects of changes in foreign currency"* ("IAS 21"), transactions in foreign currencies are translated to the respective functional currencies of the entities of the Company at exchange rates prevailing at the dates of operations. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at the balance sheet date. The gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at end of period being reported.

c) Cash and cash equivalents

Cash and cash equivalents consist of short-term investments, highly liquid, readily convertible into cash and are subject to insignificant risk of changes in value, including overnight repurchase agreements and certificates of deposit with an initial term of less than three months. At December 31, 2015 and 2014, include cash equivalents consisting of money market for Ps. 2,324,527 and Ps. 1,560,804, respectively.

d) Financial assets

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

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

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

Financial assets are classified within the following specific categories: "financial assets at fair value with changes through profit or loss" and "accounts receivable and other accounts receivable". The classification depends on the nature and purpose thereof and is determined upon initial recognition.

Financial assets valued at fair value through profit or loss

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

Accounts receivable and other accounts receivable

Trade accounts receivable and other accounts receivable with fixed or determinable payments that are not traded on an active market are classified as "Accounts receivable". According to IAS 39, *"Financial Instruments: Recognition and valuation"* ("IAS 39"), concepts within this category have no explicit cost and are recognized at amortized cost, it means, the net present value of accounts receivable at the date of transaction. Due to their short maturity, the Company recognizes initially these accounts at original value less allowance for doubtful accounts. Allowance for doubtful accounts and impairment of other accounts receivable are recognized in the selling and administrative expenses in Statement of Comprehensive Income. Interest income is recognized applying the effective interest rate method.

Effective interest method

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

Write-off of financial assets and financial liabilities

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

e) Impairment of financial instruments

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

Financial assets carried at amortized cost

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

f) Derivative financial instruments

Hedging instruments

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

Cash flow hedges

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

If the hedging instrument matures or is sold, terminated or exercised without replacement or continuous financing, or if its designation as a hedge is revoked, any cumulative gain or loss recognized directly within other comprehensive income in stockholders' equity from the effective date of the hedge, remains separated from equity until the forecasted transaction occurs when it is recognized in income. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss recognized in stockholders' equity is immediately carried to profit and loss. Derivatives designated as hedges that are effective hedging instruments are classified based on the classification of the underlying. The derivative instrument is divided into a short-term portion and a long-term portion only if a reliable assignation can be performed. At December 31, 2015 and 2014, the Company has no open positions of cash flow hedges.

Embedded derivatives

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

g) Fair value of financial instruments

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

h) Inventories and cost of sales

Inventories are stated at the lower of historical cost or net realizable value. Cost of sales include expenses related to the termination of customers' cellular and long-distance calls in other carriers' networks, as well as expenses related to billing, payment processing, operator services and our leasing of private circuit links.

Cost of integrated services consists in internal and external engineering services, as well as materials and equipment required to provide them.

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

i) Investments in associates and other equity investments

Investments in associates are initially valued at acquisition cost, and subsequently, using the equity method, when the Company exercise significant influence over the associate.

Among other factors, significant influence is evident when the Company: a) has, directly or through subsidiaries, more than 20% of the share capital of the entity; b) has the ability, directly or indirectly, to influence the administrative, financial and operating policies of an entity; or c) is the recipient of the risks and benefits of the investment.

Other equity investments in which the Company does not exercise significant influence the investees' capital stock are recorded at cost.

j) Property, systems and equipment

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

Depreciation

Depreciation is calculated on the amount susceptible to depreciate, corresponding to cost of an asset, or other amount that replaces cost, less the salvage value.

The salvage value of an asset is the estimated amount that an entity would currently obtain from disposal of an item, after deducting the estimated costs of disposal, if the asset were already in the expected condition at the end of its useful life. The Company's practice is to use its assets until they are no longer useful since in the industry in which the Company operates, it is not common to perform equipment sales to competitors.

Depreciation is recognized in profit or loss using the straight-line method according to estimated useful life of each type of asset, since it shows in a better way the expected usage pattern of the future economic benefits included in the assets.

Leased assets are depreciated over the term of the lease agreement or the useful life of the assets, the smaller, unless there is reasonably certain that the Company will acquire ownership of the leased assets at the end of the lease agreement

The estimated average useful lives for the current periods are as follows:

- Building 25 years
- Computer equipment 3 years
- Transportation equipment 4 years
- Furniture and fixtures 10 years
- Network equipment 6 to 28 years

Useful lives and salvage values are reviewed at each year end and adjusted, if necessary (See note 7(a)).

Subsequent costs

The cost of replacing a component of an item of property, systems and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will inflow to the Company, and the cost can be measured reliably. Maintenance and minor repairs, including the cost of replacing minor items not constituting substantial improvements are expensed as incurred and charged through consolidated profit or loss statement into selling and administrative expenses.

Borrowing costs

Borrowing costs directly related to the acquisition, construction of production of qualifying assets, which constitute assets that require a substantial period until they are ready for use, are added to the cost of such assets during the construction stage and until commencing their operations and/or exploitation. All other borrowing costs are recognized in profits and losses during the period in which they were incurred.

k) Intangibles assets

The amounts expensed for intangible assets are capitalized when the future economic benefits derived from such investments, can be reliably measured. According to their nature, intangible assets are classified with determinable and indefinite lives. Intangible assets with determinable lives are amortized using the straight-line method during the period in which the economic benefits are expected to be obtained.

Intangible assets with an indefinite life are not amortized, as it is not feasible to determine the period in which such benefits will be materialized; however, they are subject to annual impairment tests. As of December 31, 2015 and 2014, respectively, the Company had no intangible assets with an indefinite life registered in accounting. The price paid in a business combination assigned to intangible assets is determined according to their fair value using the purchase method of accounting. Research and development expenses for new products are recognized in results as incurred.

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

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

l) Impairment of non-financial assets

The Company reviews the carrying amounts of tangible and intangible assets in order to determine whether there are indicators of impairment. If there is an indicator, the asset recoverable amount is calculated in order to determine, if applicable, the impairment loss. The Company undertakes impairment tests considering asset groups that constitute a cash-generating unit (CGU).

The recoverable amount is the higher of fair value less its disposal cost, and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects market conditions and specific risks to each asset or the CGU.

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

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

m) Financial liabilities

Initial recognition and measurement

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

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

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

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

Financial liabilities at fair value with changes to profit or loss

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

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

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

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

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

Financial debt and interest bearing loans

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

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

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

n) Provisions

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

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

o) Employee benefits

Short-term employee benefits

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

Seniority premiums granted to employees

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

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

Termination benefits

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

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

p) Statutory employee profit sharing

According to Mexican labor law, the Company must distribute the equivalent of 10% of the annual taxable income as employee statutory profit sharing in those legal entities with employees. This amount is recognized in the consolidated statement of comprehensive income within the selling and administrative expenses.

q) Income taxes

The income tax includes current and deferred tax. The current and deferred tax are recognized in profit or loss, except that it relates to a business combination, or items recognized directly in equity or in other comprehensive income or loss.

The current tax comprises the expected tax payable or receivable. The income tax for the year is determined according to legal and taxation requirements for companies in Mexico, using tax rates enacted at the reporting date, and any adjustment to tax payable regarding of previous years for each of the legal entities of the Company.

The deferred tax is registered under the asset and liability method, which compares book and tax values of assets and liabilities of the Company, and deferred taxes (assets or liabilities) derived from the differences between those values are recognized. Taxes are not recognized for the following temporary differences: the initial recognition of assets and liabilities in a transaction other than a business combination and does not affect the accounting or tax result, and differences relating to investments in subsidiaries and joint ventures to the extent that is probably not reverse in the foreseeable future. Additionally, no deferred taxes are recognized for taxable temporary differences arising from the initial recognition of goodwill. Deferred taxes are calculated using rates that are expected to apply to temporary differences when they are reverted, based on enacted laws at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset tax assets and liabilities, and correspond to income taxes imposed by the same tax authority and for the same tax entity, or on different tax entities, but they intend to settle tax assets and liabilities on a net basis, or their tax assets and liabilities are realized simultaneously.

A deferred tax asset for tax loss carryforwards, tax credits and deductible temporary differences are recognized to the extent that it becomes probable that taxable future profits will be available to be applied against. Deferred tax assets are reviewed at the reporting date and are reduced to the extent that realization of the related tax benefit is no longer probable.

r) Revenue recognition

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

- *Telephony, internet and pag – tv, Services* – Customers are charged a flat monthly fee for basic service, a per-call fee for local calls, a per-minute usage fee for calls completed on a cellular line and domestic and international long distance calls, and a monthly fee for value-added services, according to the individual offer of each client.
- *Activation* – At the moment of installing the service when the customer has a contract with indefinite life; otherwise is recognized over the average contract life.
- *Equipment* – At the moment of selling the equipment and when the customer acquires the property of the equipment and assumed all risks.
- *Integrated services* – At the moment when the client receives the service.
- *Income from interconnection* – Based on the traffic of minutes and generated by approved rates by Federal Telecommunications Institute (*Instituto Federal de Telecomunicaciones* or "IFETEL") or private agreements.
- *Income from real estate construction* – Revenues and costs from contracts for long-term projects are recognized using the percent of completion method. If, during the term of the project, the Company estimates that incurred costs plus remaining costs to be incurred, exceed total revenue, the expected loss is recognized in results immediately.
- *Deferred revenue* – Advance payments or unearned revenue, are initially recorded on the balance sheet as a liability, until the services have been rendered or products have been delivered, it is recognized as revenue on the income statement, in this moment the liability decrease. In addition, the liability account is reduced by refunds made to customers.

s) Earnings per share

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

t) Segments

Management evaluates the Company's operations as two revenue streams (mass market and business market), however it is not possible to attribute direct or indirect costs to the individual streams other than selling expenses and as a result has determined that it has only one operating segment.

(6) Recently Issued Accounting Standards

There are several IFRS issued at the date of these consolidated financial statements, that have not yet been adopted, which are listed below. Except as otherwise indicated, the Company expects to adopt these IFRS when they become effective.

- IFRS 9, *Financial instruments: classification and measurement* ("IFRS 9"). IFRS 9 sets forth the guidance relating to the classification and measurement of financial assets and liabilities, to the accounting for expected credit losses on an entity's financial assets and commitments to extend credits, as well as the requirements related to hedge accounting, and will replace IAS 39, *Financial instruments: recognition and measurement* ("IAS 39") in its entirety. IFRS 9 requires an entity to recognize a financial asset or a financial liability when, and only when, the entity becomes party to the contractual provisions of the instrument. At initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, and includes a category of financial assets at fair value through other comprehensive income for simple debt instruments. In respect to impairment requirements, IFRS 9 eliminates the threshold set forth in IAS 39 for the recognition of credit losses. Under the impairment approach in IFRS 9 it is no longer necessary for a credit event to have occurred before credit losses are recognized, instead, an entity always accounts for expected credit losses, and changes in those expected losses through profit or loss. In respect to hedging activities, the requirements of IFRS 9 align hedge accounting more closely with an entity's risk management through a principles-based approach. Nonetheless, the IASB provided entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 until the IASB completes its project on the accounting for macro hedging. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. If an entity elects to apply IFRS 9 early, it must apply all of the requirements in this standard at the same time. The Company is currently evaluating the impact that IFRS 9 will have on the classification and measurement of its financial assets and financial liabilities, impairment of financial assets and hedging activities. Effects of the adoption of this standard have not been estimated with reasonability. Nonetheless, the Company is not considering an early application of IFRS 9.

- In May 2014, the IASB issued IFRS 15, Revenue from contracts with customers ("IFRS 15"). The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, following a five step model: Step 1) Identify the contracts(s) with a customer, which is an agreement between two or more parties that creates enforceable rights and obligations; Step 2): Identify the performance obligations in the contract, considering that if a contract includes promises to transfer distinct goods or services to a customer, the promises are performance obligations and are accounted for separately; Step 3) Determine the transaction price, which is the amount of consideration in a contract to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer; Step 4): Allocate the transaction price to the performance obligations in the contract, on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract; and Step 5) Recognize revenue when (or as) the entity satisfies a performance obligation, by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). IFRS 15 also includes disclosure requirements that would provide users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. IFRS 15 will supersede all existing guidance on revenue recognition. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted considering certain additional disclosure requirements. The Company is currently evaluating the impact that IFRS 15 will have on its financial information. Effects of the adoption of this standard have not been estimated with reasonability. It is not considered the early adoption of IFRS 15.

- On January 13, 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16"), which will supersede all current standards and interpretations related to lease accounting. IFRS 16, defines leases as any contract or part of a contract that conveys to the lessee the right to use an asset for a period of time in exchange for consideration and the lessee directs the use of the identified asset throughout that period. In summary, IFRS 16 introduces a single lessee accounting model, and requires a lessee to recognize, for all leases with a term of more than 12 months, unless the underlying asset is of low value, assets for the "right-of-use" the underlying asset against a corresponding financial liability, representing the net present value of estimated lease payments under the contract, with a single income statement model in which a lessee recognizes depreciation of the right-of-use asset and interest on the lease liability. A lessee shall present either in the balance sheet, or disclose in the notes, right-of-use assets separately from other assets, as well as, lease liabilities separately from other liabilities. IFRS 16 is effective beginning January 1, 2019, with early adoption permitted considering certain requirements. The Company is evaluating the impact that IFRS 16 will have on the recognition of its lease contracts. Effects of the adoption of this standard have not been estimated with reasonability. The Company is not considering the early application of IFRS 16.

(Thousands of Mexican pesos)

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

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the period. These assumptions are reviewed on an ongoing basis using available information. Actual results could differ from these estimates.

Underlying estimates and assumptions are reviewed regularly. Accounting estimates changes are prospectively recognized.

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

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

   Starting on January 1, 2015 and, as a result of several comprehensive analysis about changes in the technology of certain assets and new estimates of useful life, the Company adjusted the useful lives of network infrastructure mentioned below:

Type of Network equipment	Previous useful life	New useful life
Commutation	3 to 10 years	5 to 12 years
Power plant and A/C	3 years	5 years
External equipment	10 years	12 years
Transmission	3 to 10 years	5 to 12 years
Fiber optic	10 years	12 years

   The adjustment indicated above has been applied prospectively as a change in accounting estimate, resulting in a decrease of approximately Ps.526,675 in depreciation expense compared to 2014.

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

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

(Thousands of Mexican pesos)

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

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

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

g) Financial cost of debt – In cases where debt is contracted and within contractual conditions there are incremental interest rates according to term, The Company uses the weighted average interest rate method to calculate and recognize interest expense of any period, based on the assumption that debt will not be prepaid or renegotiated before maturity.

h) Income taxes effects from uncertain tax possitions are recognized when there is a high probability that the criteria will be based on its technical merit and assuming that authorities will review each possition and have complete knowledge of the relevant information. These possitions are valued on the basis of a cumulative probability model. Each possitions is considered individually, without considering its relationship with another tax procedure. The high probability indicator represents an affirmation of the administration that the Company is entitled to the economic benefits of the tax possition. If a tax possition is considered low probability of being supported, the benefits of the possition are not recognized. Interest and penalties associated with unrecognized tax benefits are part of income taxes expense in the consolidated statements of income.

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

(8) Financial instruments

Categories of financial instruments

		2015	2014
Financial assets			
Cash and cash equivalents	Ps.	2,575,222	2,697,835
Accounts receivable		5,632,981	5,008,936
Financial instruments		378,099	121,999
Advance to suppliers		52,648	112,763
Other current assets		151,511	225,331

Financial liabilities		2015	2014
Derivative financial instruments	Ps.	65,222	46,952
Accrued interest		545,208	458,822
Short-term debt		130,000	130,000
Current maturities of long-term debt and long-term debt		12,851,606	10,866,001
Accounts payable and accrued liabilities		2,676,819	2,347,302

(a) Financial risk management objectives

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

(b) Market and interest rate risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, sill affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

For interest rate risk, management has a risk management committee which discusses, among other things; whether each of the loans contracted either for working capital or to finance investment projects should be (according to market conditions and the functional currency of the Company) contracted with fixed or variable rate.

The Company undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Monetary assets and liabilities denominated in dollars as of December 31, 2015 and 2014 are as follows:

		(Thousands of US dollars)	
		2015	**2014**
Current assets	U.S.	124,523	130,803
Current liabilities		(127,022)	(102,231)
Non - current liabilities		(710,481)	(726,992)
Foreign currency liabilities, net	U.S.	(712,980)	(698,420)

The U.S. dollar exchange rates as of December 31, 2015 and 2014 were Ps. 17.20 and Ps. 14.71, respectively. As of March 4, 2016, the exchange rate was Ps. 17.85.

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

(c) Market sensitivity analysis

Exchange rate sensitivity analysis

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

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

If the peso strengthens 10% against the U.S. dollar, the profit for the year ended December 31, 2015 and equity would increase by Ps. 1,115,263.

If the peso weakens 10% against the U.S. dollar, profit for the year ended December 31, 2015 and equity would decrease by Ps. 1,226,789.

(d) Embedded derivatives

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

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

The following summarizes the accounting for the convertible notes and the embedded derivative arising from the conversion option:

	(Thousands of U.S. dollars)	
Convertible Notes – liability	**December 31, 2015**	**December 31, 2014**
Face value	22,189	22,189
Options converted (note 13a)	(18,475)	(8,016)
	3,714	14,173
Fair value of conversion option recognized as a derivative financial instrument	(9,738)	(9,738)
Accrued interest	8,689	5,015
Carrying amount of convertible notes	2,665	9,450

	(Thousands of U.S. dollars)	
Convertible Notes – Derivative financial instrument	**December 31, 2015**	**December 31, 2014**
Fair value of conversion option at initial balance	3,190	8,921
Loss (gain) in change of fair value for the period	601	(5,731)
Fair value of conversion option at year end	3,791	3,190

For the years ended December 31, 2015 and 2014 the change in fair value of derivative financial instruments resulted in an unrealized (loss) gain of (Ps.57,476) and Ps.18,929, respectively, recognized in the comprehensive financing within the change in the fair value and settlements of financial instruments, net.

(e) Other price risks (equity price risk)

During July, August and September 2009, the Company acquired call options denominated “Zero Strike Calls” that have a notional of 26,096,700 CPOs of Axtel’s shares. During the months of June and July of 2010, the Company acquired additional Zero Strike Calls for 4,288,000 CPOs of Axtel, on the same conditions, holding 30,384,700 CPOs as of January 1, 2011. During the months of October, November and December of 2014, the Company acquired additional Zero Strike Calls for 5,639,336 CPOs of Axtel, with the same conditions. During 2015 additional Zero Strike Calls for 7,435,646 CPOs were acquired. The underlying of these instruments is the market value of the Axtel’s CPOs. The premium paid was equivalent to the market value of the notional plus transaction costs. The strike price established was Ps.0.000001 per option. This instrument is redeemable only in cash and can be redeemed by the Company at any time (considered to be American options), for a six-month period and are extendable. The terms and fair value of the Zero Strike Calls is included in the following table:

(Thousands of Mexican pesos)

Counterparty	Notional amount	Terms	Fair value Asset 2015	2014
Bank of America Merrill Lynch	30,384,700 CPOs	Receives in cash the market value of the notional amount	264,347	102,700
Corporativo GBM, S.A.B. de C.V.	13,074,982 CPOs	Receives in cash the market value of the notional amount	113,752	19,299
			378,099	121,999

For the years ended December 31, 2015 and 2014 the change in the fair value of the Zero Strike Calls resulted in an unrealized gain (loss) of Ps.221,182 and (Ps. 40,201), respectively, recognized in the net finance cost within the change in the fair value and settlements of financial instruments, net.

(f) Equity price risk sensitivity analysis

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

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

- Profit and equity for the year ended December 31, 2015 would increase by Ps.37,810.

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

- Profit and equity for the year ended December 31, 2015 would decrease by Ps.34,373.

(g) Credit risk management

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

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

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

- Company A represented 12%, and 5% of the Company's accounts receivable as of December 31, 2015 and 2014, respectively. Additionally, revenues associated with Company A for the year ended December 31, 2015 and 2014 were 4% and 0%, respectively.

- Company B represented 2%, and 1% of the Company's accounts receivable as of December 31, 2015 and 2014, respectively. Additionally, revenues associated with Company B for the year ended December 31, 2015 and 2014 were 4% and 1%, respectively.

- The Credit risk in investments on demand and in derivative financial instruments is minimal, since the counterparties are banks with high credit ratings assigned by international qualified agencies.

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

(h) Liquidity risk management

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

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

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

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		Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years
December 31, 2015						
Variable interest rate instruments	Ps	170,518	32,395	26,091	8,142	6
Fixed interest rate instruments		1,333,841	2,086,527	1,044,447	2,758,644	9,860,087
Capacity lease		141,187	117,562	117,562	88,172	-
	Ps	1,645,546	2,236,484	1,188,100	2,854,958	9,860,093

		Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years
December 31, 2014							
Variable interest rate instruments	Ps	158,499	21,934	13,979	7,702	-	-
Fixed interest rate instruments		1,130,525	1,049,144	1,777,453	898,450	2,372,833	8,594,932
	Ps	1,289,024	1,071,078	1,791,432	906,152	2,372,833	8,594,932

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

Fair value of financial instruments

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

	December 31, 2015		**December 31, 2014**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities				
Financial liabilities held at amortized cost:				
Senior Unsecured Notes with maturity in 2017	867,173	868,257	741,758	741,684
Senior Unsecured Notes with maturity in 2019	1,750,417	1,750,242	1,497,262	1,497,112
Senior Secured Notes with maturity in 2020	9,371,572	9,370,635	8,016,203	7,775,717
Financing leases	535,423	618,763	602,582	664,440
Capacity lease	385,968	326,943	-	-

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

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments or option pricing models as best applicable. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and include other adjustments to arrive at fair value as applicable (i.e. for counterparty credit risk).

- The fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

The Company applies the guidance in IFRS 13, *Fair Value Measurement* ("IFRS 13") to determine the fair value of financial assets and financial liabilities recognized or disclosed at fair value. IFRS 13 requires fair values in addition to those already required or permitted by other IFRS, and is not intended to establish valuation standards or affect valuation practices outside financial reporting. Under IFRS 13, the fair value represents a "Selling Price", which would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date, considering the credit risk the counterparty valuation.

The concept of Selling Price is based on the assumption that there is a market and participants in this for the specific asset or liability. When there are no market and / or market participants, IFRS 13 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority pricing calculations that deal with data entry but significant unobservable (Level 3 measurement).

The three levels of hierarchy are as follows:

- The level 1 data are quoted prices in active markets (unadjusted) for identical assets or liabilities that the Company has the ability to negotiate at the date of measurement. A quoted price in an active market provides the most reliable evidence of fair value and is used without adjustment for determining fair value whenever it is available.

- Level 2 data are data other than quoted prices in active markets that are directly or indirectly observable for the asset or liability that are mainly used to determine the fair value of shares, investments and loans that are not actively traded. Level 2 data include stock prices, interest rates and certain yield curves, implied volatility, credit spreads, and other data, including data extrapolated from other observable data. In the absence of level 1 data, the Company determines fair value by interacting applicable Level 2 data, the number of instruments and / or other relevant terms of the contracts, as applicable.

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- Level 3 data are those that are not observable for the asset or liability. The Company uses this data to determine fair value when there is no Level 1 or Level 2 data, in valuation models such as discounted cash flows.

	December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Zero strike calls	378,099	-	-	378,099
Financial liabilities				
Derivative financial liabilities	-	65,222	-	65,222

	December 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Zero strike calls	121,999	-	-	121,999
Financial liabilities				
Derivative financial liabilities	-	46,952	-	46,952

(9) Accounts receivable, net

Accounts receivable, net consist of the following:

		2015	**2014**
Accounts receivable	Ps	5,632,981	5,008,936
Less allowance for doubtful accounts		2,739,964	2,582,769
Accounts receivable, net	Ps	2,893,017	2,426,167

Given their short-term nature the carrying value of trade accounts receivable approximates the fair value as of December 31, 2015 and 2014.

Movement in the allowance for doubtful accounts.

		2015	**2014**
Opening balance	Ps	2,582,769	2,407,130
Allowance for the year		154,621	173,941
Effect of exchange rate		2,574	1,698
Balances at period end	Ps	2,739,964	2,582,769

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

Aging of impaired trade receivables:

		2015	2014
60 – 90 days	Ps	13,350	17,786
90 - 120 days		15,988	28,591
120 + days		2,710,626	2,536,392
Total	Ps	2,739,964	2,582,769

Aging of past due but not impaired

		2015	2014
Current	Ps	1,232,136	949,172
1 – 30 days		135,311	139,937
30 – 60 days		83,486	183,037
60 – 90 days		54,194	37,523
90 + days		625,690	417,467
Total	Ps	2,130,817	1,727,136

(10) Property, systems and equipment, net

Property, systems and equipment are as follows:

		Land and Building	Computer and electronic equipment	Transportation equipment	Furniture and fixtures	Network equipment	Leasehold improvements	Construction in progress	Total
Balance as of January 1, 2014	Ps	430,990	3,382,097	387,713	241,069	32,417,894	429,612	858,696	38,148,071
Additions		-	152,125	4,465	6	458,514	-	2,548,101	3,163,211
Transfer of completed projects in progress		-	161,252	4,723	16,632	2,212,733	583	(2,395,923)	-
Disposals		-	(2,131)	(20,900)	(55)	(18,231)	-	-	(41,317)
Balance as of December 31, 2014	Ps	430,990	3,693,343	376,001	257,652	35,070,910	430,195	1,010,874	41,269,965
Additions		-	-	2411	42	846,169	-	1,985,452	2,834,074
Transfer of completed projects in progress		-	153,437	19,656	3,101	1,679,422	21,614	(1,877,230)	-
Disposals		-	(7,695)	(23,742)	(170)	(29,430)	-	(813)	(61,850)
Balance as of December 31, 2015	Ps	430,990	3,839,085	374,326	260,625	37,567,071	451,809	1,118,283	44,042,189

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Depreciation and impairment		Land and Building	Computer and electronic equipment	Transportation equipment	Furniture and fixtures	Network equipment	Leasehold improvements	Construction in progress	Total
Balance as of January 1, 2014	Ps	136,084	1,359,352	321,494	178,269	22,637,701	327,984	-	24,960,884
Depreciation of the year		14,284	126,316	45,036	17,577	3,152,790	24,963	-	3,380,966
Disposals		-	(2,053)	(20,115)	(30)	(11,230)	-	-	(33,428)
Balance as of December 31, 2014	Ps	150,368	1,483,615	346,415	195,816	25,779,261	352,947	-	28,308,422
Depreciation of the year		14,287	111,562	16,796	15,397	2,384,169	21,137	-	2,563,348
Disposals		-	(7,623)	(23,513)	(119)	(14,505)	-	-	(45,760)
Balance as of December 31, 2015	Ps	164,655	1,587,554	339,698	211,094	28,148,925	374,084	-	30,826,010
Property, systems and equipment, net at December 31, 2014	Ps	280,622	2,209,728	29,586	61,836	9,291,649	77,248	1,010,874	12,961,543
Property, systems and equipment, net at December 31, 2015	Ps	266,335	2,251,531	34,628	49,531	9,418,146	77,725	1,118,283	13,216,179

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

During the year ended December 31, 2015 and 2014 the Company capitalized Ps.44,223 and Ps.36,847, respectively of borrowing costs in relation to Ps.831,303 and Ps.709,293 in qualifying assets. Amounts were capitalized based on a capitalization rate of 10.14% and 9.85%, respectively.

No impairment was recognized for tangible or intangible assets for the years ended December 31, 2015 and 2014. The main assumptions used in calculating use value are as follows:

a) The Company tests for impairment considering asset groups constituting the cash-generating unit (CGU).

b) The Company determines the use value of the CGU by discounting the estimated future cash flows to their present value.

c) Only assets in operation as of December 31, 2015 were considered.

d) The Company believes that it operates in a single operating segment, so evaluates all its operations as a single CGU (see Note 5 (l)).

e) The after tax discount rate used was 10.2%.

Regarding the growth of cash flows included in the model use value, the Company has considered a range of growth in the range from 4.24% to 18.15% for the first 5 years. Year 6 to 9, are no longer considered further growth.

(Thousands of Mexican pesos)

For the year ended December 31, 2015 and 2014 interest expenses are comprised as follows:

		2015	**2014**
Interest expense	Ps	(1,280,531)	(912,592)
Amount capitalized		44,223	36,847
Net amount in consolidated statements of comprehensive income	Ps	(1,236,308)	(875,745)

As of December 31, 2015, certain financial leases amounting to approximately Ps. 15 million were guaranteed with the equipment acquired with those leases.

The depreciation expense for the year ended December 31, 2015 and 2014 amounts to Ps. 2,563,348 and Ps. 3,380,966, respectively (see note 7 a).

(11) Intangible assets, net (see note 7 a)

Intangible assets with defined useful lives consist of the following:

		Telephone concession rights Axtel	**Telephone concession rights Avantel**	**Telmex / Telnor infrastructure costs**	**World Trade Center concession rights**	**Rights of use**	**Others**	**Total**
Balances as of December 31, 2014 and 2015	Ps.	571,520	110,193	58,982	21,045	30,030	73,169	864,939
Depreciation and impairment								
Balances as of December 31, 2013	Ps.	427,238	70,124	38,578	12,682	20,223	72,302	641,147
Amortization		30,307	10,018	4,080	1,672	2,886	867	49,830
Balances as of December 31, 2014	Ps.	457,545	80,142	42,658	14,354	23,109	73,169	690,977
Amortization		30,307	10,018	4,080	1,672	2,886	-	48,963
Balances as of December 31, 2015	Ps.	487,852	90,160	46,738	16,026	25,995	73,169	739,940
Intangible assets, net at December 31, 2014	Ps.	113,975	30,051	16,324	6,691	6,921	-	173,962
Intangible assets, net at December 31, 2015	Ps.	83,668	20,033	12,244	5,019	4,035	-	124,999

Concessions rights of the Company

The main concessions of the Company are as follows:

- Concession to offer local and long distance telephony services, for a period of thirty years. To maintain this concession the Company needs to comply with certain conditions. It can be renewed for another period of thirty years;

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

- Concessions of different frequencies of radio spectrum for 20 years and renewable for additional periods of 20 years, as long as Axtel complies with all of its obligations, and with all conditions imposed by the law and with any other condition that Department of Communications and Transportation (Secretaria de Comunicaciones y Transporte) or (SCT) imposes.

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

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

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

Intangible assets arising from the acquisition of Avantel

Derived from the acquisition of Avantel in 2006, the Company recorded certain intangible assets such as: trade name "Avantel", customer relationships and telephone concession rights, whose value were determined by using an independent external expert appraiser at the acquisition date and accounted for in accordance to previous GAAP. The trade name and customer relationships are amortized over a three-year period; meanwhile the concession is amortized over the remaining term of the concession on a straight-line basis. At December 31, 2014 the values of the trade name "Avantel" and of customer relationships were fully amortized.

(12) Other assets

Other assets consist of the following:

		2015	2014
Prepaid expenses	Ps	219,766	276,738
Guarantee deposits		48,307	48,307
Others		3,024	31,325
Other assets		271,097	356,370
Current portion of other assets		151,511	225,331
Other long-term assets	Ps	119,586	131,039

(Thousands of Mexican pesos)

(13) Long-term debt

a) Long-term debt as of December 31, 2015 and 2014 consist of the following:

		2015	2014
U.S. 275 million in aggregate principal amount of 7 $^{5}/_{8}$ % Senior Unsecured Notes due in 2017. Interest is payable semiannually on February 1 and August 1 of each year. During January and 2013, the Company completed the exchange of U.S. 224.6 and U.S. 167.4 million of unsecured notes maturing in 2017 and 2019, respectively, for U.S. 358.6 and U.S. 22 million dollars on secured bond and a convertible bond.	Ps.	867,173	741,758
U.S. 490 million in aggregate principal amount of 9% Senior Unsecured Notes due in 2019. Interest is payable semiannually on March and September of each year. In January 2013, the Company completed the exchange of U.S. 224.6 and U.S.167.4 million of unsecured notes maturing in 2017 and 2019, respectively, for U.S. 358.6 and U.S. 22 million dollars on secured bond and a convertible bond.		1,750,417	1,497,262
Senior Secured Notes in a principal amount of U.S. 544.6 and U.S. 394.6 million dollars as of 2014 and 2013, respectively, with initial interest of 7% will be increased to 9% and maturing in 2020. Interest is payable semi-annually in February and August of each year.		9,371,572	8,016,203
Senior Secured Convertible Notes U.S. dollar-indexed principal amount of U.S. 22.2 million dollars with initial interest of 7% will be increased to 9% and maturing in 2020. Interest is payable semi-annually in February and August of each year.		45,856	139,097
Discount on note caused by Senior Secured Notes payable in the amount of U.S. 36 million at an initial interest rate of 7% will increase to 9% due 2020.		(19,462)	(24,228)
Premium on Senior Unsecured Notes with an aggregate principal of U.S. 490 million with an interest rate of 9%, due in 2019.		8,604	10,817
Capacity lease agreement with Teléfonos de Mexico, S.A.B. de C.V. of approximately Ps. 534,755 million and expiring in 2019.		385,968	-
Finance leases with several credit institutions with interest rates around 6% for those denominated in dollars; and TIIE (Mexican average interbank rate) plus 3% and 5.5% basis points for those denominated in pesos, with maturities between 3 to 4 years.		535,423	602,582
Debt issuance and deferred financing costs		(93,945)	(117,490)
Total long-term debt		12,851,606	10,866,001
Less current maturities		375,656	220,554
Long-term debt, excluding current maturities	Ps.	12,475,950	10,645,447

(Thousands of Mexican pesos)

Annual installments of long-term debt are as follows:

Year		Amount
2017	Ps	1,154,853
2018		164,214
2019		1,844,258
2020		9,312,625
	Ps	12,475,950

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

For the year ended December 31, 2015 and 2014, the interest expense was Ps. 1,280,531 and Ps. 912,592 respectively. (See note 10).

On September 17, 2014, The Company completed the reopening of secured bonds issuance due in 2020 for U.S. 150 million at a priced at 100.25% of the principal amount, on the same terms and interest rates of the secured notes due in 2020 referred to in the following paragraphs.

b) Bank loans

On March 28, 2014 the Company entered into a promissory note with Banco Nacional de Mexico, S.A. whereby a loan of Ps. 130,000 was received, with an interest rate of TIIE plus 3.5 basis points annually. This loan matures in June 2015.

On December 13, 2013 the Company entered into a credit facility with Banco Mercantil del Norte, S.A. whereby a loan of Ps. 130,000 was received in August 2014, with an interest rate of TIIE plus 3.50 basis points annually. This loan was paid in full in September 2014.

On October 8, 2013 the Company entered into a credit facility with Banco Monex whereby a loan of Ps. 200,000 was received in August 2014, with an interest rate of TIIE plus 3.50 basis points annually. This loan was paid in full in September 2014.

Certain debt agreements establish affirmative and negative covenants, the most significant of which refer to limitations on dividend payments and the compliance with certain financial ratios. As mentioned in note 22 (a), the Company paid in full its debt as of December 31, 2015, during February 2016, so the restrictions described herein are exchanged by those set out in the new debt.

(14) Transactions and balances with related parties

The transactions carried out with related parties during the years ended as of December 31, 2015 and 2014 are as follows:

		2015	2014
Rent expense	Ps.	34,860	29,698
Installation service expense		18,020	30,225
Other		2,705	5,369

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At the end of 2014, Banamex was no longer considered as related party, since it has disposed of the shares held in the Company, and not meet any other requirement to be considered as such, according to IFRS.

The balances with related parties as of December 31, 2015 and 2014, included in accounts payable are as follows:

		2015	2014
Accounts payable short-term:			
GEN Industrial, S.A. de C.V. [1]	Ps	131	52
Neoris de México, S.A. de C.V.		598	505
Total	Ps	729	557

[1] Mainly administrative services.

The benefits and aggregate compensation paid to executive officers and senior management of the Company during the year ended December 31, 2015 and 2014 were as follows:

		2015	2014
Short-term employee benefits paid	Ps	259,368	72,094

(15) Provisions

Provisions as of December 31, 2015 are as follows:

		2015
Payroll provisions	Ps.	101,100
Restructuring provisions		89,000
Total	Ps.	190,100

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

Provisions		2015
Initial balance	Ps.	-
Provisions for the year		190,100
Ending balance	Ps.	190,100

In order to comply with its strategic plans, the Company is conducting a restructuring in some of its operating areas. The cost of this restructuring consists of compensation and employee benefits and is presented within operating income in the statement of comprehensive income.

(Thousands of Mexican pesos)

(16) Deferred revenue

Deferred revenue as of December 31, 2015 and 2014 are as follows:

		2015	2014
Deferred revenue	Ps.	509,415	729,768
Current portion of deferred revenue		509,415	695,868
Long-term deferred revenue	Ps.	-	33,900

Changes in the balances of deferred revenue for the year are as follows:

		2015	2014
Initial balance	Ps.	729,768	617,815
Increases		616,466	901,482
Recognized in income for the year		(836,819)	(789,529)
Ending balance	Ps.	509,415	729,768

(17) Income tax (IT)

The IT Law effective from 1 January 2014 establishes an income tax rate of 30% for 2014 and beyond.

The income tax benefit is as follows:

		2015	2014
Current income tax	Ps	(61,305)	(34,459)
Deferred income tax		428,537	572,596
Income tax benefit	Ps	367,232	538,137

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

	2015	2014
Statutory income tax rate	(30%)	(30%)
Inflationary effects	-	(2%)
Non-deductible effects from allowance for doubtful accounts	4%	9%
Non-deductible expenses	8%	1%
Temporary unrecognized deferred tax assets	1%	-
Other	(1%)	-
Effective tax rate	(18%)	(22%)

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The main differences that gave rise to the deferred income tax assets as of December 31, 2015 and 2014 are presented below:

		2015	2014
Deferred tax assets:			
Net operating loss carry forwards	Ps.	1,682,858	1,257,927
Allowance for doubtful accounts		337,749	367,482
Accrued liabilities and others		384,861	362,947
Premium on bond issuance		2,582	3,245
Property, systems and equipment		295,775	312,239
Total deferred tax assets		2,703,825	2,303,840
Deferred tax liabilities:			
Telephone concession rights		28,554	40,466
Long-term debt		549,342	549,342
Fair value of derivative financial instruments		11,257	28,123
Intangible and other assets		10,711	10,707
Total deferred tax liabilities		599,864	628,638
Deferred tax assets, net	Ps.	2,103,961	1,675,202

The rollforward for the net deferred tax asset as of December 31, 2015 and 2014 are presented below:

		2014	Effects on profit and loss	Effects on stockholders' equity	2015
Net operating loss carry forwards	Ps.	1,257,927	424,931	-	1,682,858
Allowance for doubtful accounts		367,482	(29,733)	-	337,749
Accrued liabilities and others		362,947	21,692	222	384,861
Premium on bond issuance		3,245	(663)	-	2,582
Property, systems and equipment		312,239	(16,464)	-	295,775
Telephone concession rights		(40,466)	11,912	-	(28,554)
Long-term debt		(549,342)	-	-	(549,342)
Fair value of derivative financial instruments		(28,123)	16,866	-	(11,257)
Intangible and other assets		(10,707)	(4)	-	(10,711)
	Ps.	1,675,202	428,537	222	2,103,961

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		2013	Effects on profit and loss	Effects on stockholders' equity	2014
Net operating loss carry forwards	Ps.	824,229	433,698	-	1,257,927
Allowance for doubtful accounts		522,188	(154,706)	-	367,482
Accrued liabilities and others		547,230	(184,952)	669	362,947
Premium on bond issuance		2,233	1,012	-	3,245
Property, systems and equipment		(69,526)	381,765	-	312,239
Telephone concession rights		(52,698)	12,232	-	(40,466)
Long-term debt		(549,342)	-	-	(549,342)
Fair value of derivative financial instruments		(41,898)	13,775	-	(28,123)
Intangible and other assets		(80,479)	69,772	-	(10,707)
	Ps.	1,101,937	572,596	669	1,675,202

As of December 31, 2015, the tax loss carryforwards expire as follows:

Expiration year		Tax loss carry forwards
2016	Ps.	26,752
2018		368,693
2020		27,302
2021		1,965,011
2022		546,319
2023		558,678
2024		1,727,890
2025		1,520,934
	Ps.	6,741,579

As of December 31, 2015, the unrecognized deferred tax assets are Ps. 823,856, of which Ps. 339,616 relate to tax loss carryforwards and Ps. 484,240 relate to estimated doubtful accounts.

(18) Stockholders' equity

The main characteristics of stockholders' equity are described below:

(a) Capital stock structure

As of December 31, 2015, the common stock of the Company is Ps. 6,861,986. The Company has 9,456,140,156 shares issued and outstanding. Company's shares are divided in two classes, Class "I" which represent the fixed minimum portion of the capital stock, and Class "II" which represent the variable portion of the capital stock. The shares that belong to both Class "I" and Class "II" provide the holders the same economic and corporate rights (with the only difference of those rights that may be conferred under applicable law to holders of shares that form part of the variable portion of a *Sociedad Anónima Bursátil de Capital Variable*). Each of the Classes have two Series: Series "A" and "B"; both Series are indistinct and provide the same corporate and economic rights to its holders. All of the shares issued by the Company have no par value. Of the total shares issued and outstanding, 97,750,656 are Class "I" Series A and 9,358,389,500 are Class "I" Series B. As of December 31, 2015 the Company has not issued any Class "II" shares (neither Series "A" nor Series "B"). As of this date, significantly all of the Series "B" Shares issued by the Company are deposited in a trust (the "CPOs Trust").

(Thousands of Mexican pesos)

	Shares			Amount	
	2014	**2013**		**2015**	**2014**
Authorized and issued common stock:					
Series A	97,750,656	97,750,656	Ps.	73,396	73,396
Series B	9,358,389,500	8,970,209,218		6,788,590	6,654,946

In connection with the issuance of the convertible bond into shares held on January 31, 2013, and in accordance with the resolutions adopted at the Extraordinary General Meeting of Shareholders on January 25, 2013, the Company issued 972,814,143 Series B shares Class "I" that will be kept in the treasury of the Company, to be subsequently subscribed by the conversion of convertible bonds.

During 2015 and 2014 the conversion option was exercised for a total of 388,180,282 and 291,767,672 Class I, Series B shares, respectively, representing an increase of Ps 133,644 and Ps. 100,452 in the common stock of the Company.

During July 2008 the Company began a program to repurchase own shares which was approved at an ordinary shareholder meeting held on April 23, 2008 for up to Ps. 440 million. As of December 31, 2008 the Company had repurchased 26,096,700 CPO's (182,676,900 shares). During July, August and September 2009, the CPOs purchased through the repurchase program was resold in the market. At the ordinary shareholder meeting held on April 25, 2014 shareholders approved to allocate a maximum amount of Ps. 90 million to the share repurchase program.

(b) Stockholders' equity restrictions

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

No dividends may be paid while the Company has a deficit. Additionally, certain of the Company's debt agreements mentioned in note 13 establish limitations on dividend payments.

(c) Comprehensive loss

The balance of other comprehensive income items and its activity as of December 31, 2015 and 2014 is as follows:

		2015	**2014**
Net loss	Ps.	(1,718,355)	(1,918,601)
Other comprehensive income			
Actuarial result		(1,404)	(4,460)
Effect of income tax		222	669
Other comprehensive income net of deferred taxes		(1,182)	(3,791)
Net comprehensive (loss)	Ps.	(1,719,537)	(1,922,392)

(Thousands of Mexican pesos)

(19) Telephone services and related revenues, selling and administrative expenses

Revenues consist of the following:

		2015	2014
Local calling services	Ps.	2,676,097	2,969,459
Long distance services		663,308	1,015,593
Internet and video		1,482,165	1,337,391
Data and network		2,017,964	1,897,673
Integrated services		2,374,393	1,568,616
Equipment sales		425,296	210,314
International traffic		274,259	1,234,024
Other services		236,956	363,933
	Ps.	10,150,438	10,597,003

Selling and administrative expenses

Selling and administrative expenses are as follows:

		2015	2014
Payroll and related	Ps.	1,939,547	1,838,729
Rents		904,230	846,607
Maintenance		639,696	531,056
Consulting		475,288	458,036
Other		761,010	802,421
	Ps.	4,719,771	4,476,849

(20) Construction contract

During August 2014, the Company entered into a construction contract of a building, as well as the necessary equipment thereof according to the technical features described in the contract, amounting Ps. 540,328 plus value added tax.

Income for the year is recognized following percent of completion method which consider recoverable cost plus margin.

As of December 31, 2015, income from the construction contract is comprised as follows:

		Income for the year	Cumulative income	Balances of advances	Percent of completion (%)
Construction contract	Ps.	506,031	540,328	-	100%

(21) Commitments and contingencies

As of December 31, 2015, the Company has the following commitments and contingencies:

(a) Interconnection Disagreements – Mobile Carriers – Years 2005 to 2011. In March and May 2015, Axtel signed transaction agreements with Telcel, Iusacell and Telefónica, respectively, in which the parties agreed to terminate disputes related with interconnection services, giving as liquidated and totally paid all amounts in dispute and/or still due for years 2005, 2006, 2007, 2008, 2009, 2010 and 2011. Therefore, there is no longer a contingency for that period, except in the case of Iusacell, in which case the agreement covers the contingencies between the parties until the year 2010.

(b) Interconnection Disagreements – Telmex – Years 2009 to 2013. In March 2009, the Cofetel resolved an interconnection disagreement proceeding existing between the Company (Axtel) and Teléfonos de México, S.A.B. de C.V. ("Telmex") related to the rates applicable for the termination of long distance calls from the Company to Telmex with respect to year 2009. In such administrative resolution, the Cofetel approved a reduction in the rates for termination of long distance calls applicable to those cities where Telmex does not have interconnection access points. These rates were reduced from Ps. 0.75 per minute to U.S.0.0105 or U.S.0.0080 per minute (depending on the place where the Company delivers the long distance call).

Until June 2010 Telmex billed the Company for the termination of long distance calls, applying the rates that were applicable prior to the aforementioned resolutions, and after such date, Telmex has billed the resulting amounts, applying the new interconnection rates. As of March 31, 2015, the difference between the amounts paid by the Company to Telmex according to the new rates, and the amounts billed by Telmex, amount to approximately to Ps.1,240 million, not including value added tax.

Notwithstanding the foregoing, on March 8, 2013, Alestra S. de R.L. obtained a favorable resolution of the Thirteenth Collegiate Court in Administrative Matters of the First Circuit against Telmex, establishing interconnection rates for long distance termination for year 2009, resulting in better tariffs than those offered by Telmex to Axtel in its interconnection agreement. Consequently, and considering that in the interconnection service agreement celebrated by Axtel and Telmex, the Parties settled the obligation for Telmex to offer better conditions to the service provider when a final resolution or sentence from a Court or a competent authority has set interconnection tariffs which results in better conditions than the ones agreed by the Parties in the interconnection service agreement, additionally, the Parties also agreed that the new tariffs offering better conditions for the service provider shall be immediately applicable. Thus, the contingency established in the paragraph above, would be reduced by an estimate of Ps.772 million, resulting in an estimated amount of Ps.468 million.

Telmex filed for the annulment of the proceeding before the Federal Court of Tax and Administrative Justice (Tribunal Federal de Justicia Fiscal y Administrativa) requesting the annulment of Cofetel's administrative resolution. The Company (Axtel and Avantel) has a contingency in case the Federal Tax and Administrative Court rules against the Company, and as a result, establishes rates different from those set forth by Cofetel.

In April 9, 2014, the Upper Chamber of the Federal Court of Tax and Administrative Justice (*Sala Superior del Tribunal Federal de Justicia Fiscal y Administrativa*), ruled on the annulment trial started by Telmex, in which the validity of the administrative resolution that was being disputed was confirmed in favor of Axtel.

Telmex filed an administrative legal process (Amparo directo) against the ruling issued within the annulment trial, which was resolved by the First Federal Collegiate District Court in Administrative Matters Specialized in Unfair Competition, Broadcasting and Telecommunications (Primer Tribunal Colegiado de Circuito en Materia Administrativa Especializado en Competencia Económica, Radiodifusión y Telecomunicaciones), to the effect that the Federal Court of Fiscal and Administrative Justice issue a resolution duly founded and motivated, according with the studies of the forensic evidence.

Likewise, Telmex filed another administrative legal process (*Recurso de Revisión en Amparo Directo)* before the Supreme Court of Justice, which is yet to be resolved. By means of that Resource, Telmex claims some unconstitutional issues that were not studied by the First Circuit Court in Administrative Matters Specialized in Unfair Competition, Broadcasting and Telecommunications, in the appeal for review, in which it was ruled that the Federal Court of Fiscal and Administrative Justice shall issue a new resolution duly founded and motivated.

Currently, the Federal Court of Fiscal and Administrative Justice has already issued favorable ruling for Axtel which was challenged by Telmex through an amparo directo again.

In January 2010, Cofetel resolved an interconnection disagreement proceeding existing between the Company (Avantel) and Telmex related to the rates for the termination of long distance calls from the Company to Telmex with respect to year 2009. In such administrative resolution, Cofetel approved a reduction in the rates for termination of long distance calls applicable to those cities where Telmex does not have interconnection access points. These rates were reduced from Ps.0.75 per minute to U.S.0.0126, U.S.0.0105 or U.S.0.0080 per minute, depending on the place where the Company delivers the long distance traffic. Based on this resolution, the Company paid approximately Ps. 20 million in excess. Telmex challenged the resolution before the Federal Court of Tax and Administrative Justice, and such proceeding in the evidence stage.

On May 2011, Cofetel issued a ruling resolving an interconnection disagreement proceeding between Telmex and the Company, related to the tariff applicable to the termination of long distance calls from the Company to Telmex, for the year 2011. In such administrative resolution, Cofetel approved a reduction of the tariffs applicable for the termination of long distance calls. The above mentioned tariffs were reduced from U.S.0.0126, U.S.0.0105 or U.S.0.0080 per minute, to Ps.0.04530 and Ps.0.03951 per minute, depending on the place in which the Company is to deliver the long distance traffic. Telmex challenged this ruling before the SCT, but the request was dismissed by such authority. Nowadays, Telmex challenged such dismissal, before the Federal Court of Tax and Administrative Justice, and such proceeding pending for resolution.

Finally, in July 2013, Cofetel ruled on an administrative review proceeding between Telmex and the Company in connection with the tariffs applicable to the termination of long distance calls from the Company to Telmex for the years 2012, 2013 and 2014. In such administrative resolution, Cofetel determined for the year 2012, tariffs per minute ranging from Ps.0.02831 to Ps.0.01007, depending if it is a regional or national node; for year 2013, tariffs ranging from Ps.0.02780 to Ps.0.00968, depending if it is a regional or national node; and for year 2014, tariffs that go from Ps.0.02838 to Ps.0.00968 pesos, depending if it is a regional or national node. Telmex challenged this resolution in a *Juicio de Amparo* trial which was solved, at first stage, dismissing the *Amparo* trial and denying the protection of the Federal Justice to Telmex.

Therefore, Telmex has challenged the first instance judgment, which was sent to the Supreme Court of Justice, because of constitutional question, that favorably solved to the constitutionality of the challenged articles by Telmex.

So it is waiting that the file be send to the Collegial Court, to the effect that resolve the issues of legality.

At the date of issuance of the financial statements, the Company believes that the rates determined by Cofetel in the resolutions will prevail, and therefore it has recognized the cost, based on the rates approved by Cofetel.

As of December 31, 2009, there was a letter of credit for U.S. 34 million issued by Banamex in favor of Telmex for the purpose of guarantee the Company’s obligations, which were acquired through several interconnection agreements. The amounts under the letter of credit were drawn by Telmex in the month of January 2010, claiming that Avantel had debts with such company. At the date of issuance of the financial statements, Avantel has been able to recover the entire amount mentioned above, through compensation with regard to certain charges for services rendered by Telmex to Avantel on a monthly basis.

(c) Interconnection Disagreements – Grupo Iusacell and Grupo Telefónica – 2012-2013. During October 2014 and May 2015, the Federal Telecommunications Institute "Ifetel", which replaced Cofetel, resolved interconnection disagreements to Iusacell and Telefonica with Axtel, respectively, setting interconnection rates for termination services commuted to mobile users under the modalities "calling party pays" and "nationwide calling party pays" for the period 2012-2013. In that resolution IFETEL determined tariffs per minute of Ps. 0.3214 pesos for 2012 and Ps. 0.3144 pesos for 2013.

These rulings were challenged by mobile operators. With regard to the issue of Iusacell the first instance decision it turned out favorable to the interests of the Company. Currently, the case is on appeal to the Collegial Court and is pending. At the date of issuance of these financial statements, the Company and its advisors believe that the rates of IFT resolutions prevail, so has recognized the cost based on these rates.

(d) Interconnection Disagreement. Rates for 2015 - Grupo Iusacell, Grupo Telefónica, and Nextel. In June 2015, IFT resolved disagreements of interconnection to Iusacell, Telefónica and NII Nigital S. de R.L. de C.V with Axtel setting interconnection tariffs for local services in mobile users and termination in fixed users for 2015, of Ps. 0.2505 for mobile and Ps. 0.004179 for fixed landline.

These resolutions were challenged by mobile operators and by Axtel in a Juicio de Amparo trial, which is pending for resolution. At the date of issuance of the financial statements, the Company believes that the rates determined by the IFETEL in the resolutions will prevail, and therefore it has recognized the cost, based on these rates.

(e) Interconnection Disagreement. Rates 2015-2016 - Radio Mobile Dipsa. In August 2015, IFT setting the interconnection rates which Radio Mobile Dipsa, S.A. de C.V. (Telcel) shall pay to Axtel for fixed landline termination, for Ps. 0.004179 by 2015 and Ps. 0.003088 for 2016.

This resolution was challenged by Telcel in a Juicio de Amparo trial, which is pending for resolution in the first instance. At the date of issuance of the financial statements, the Company believes that the rates determined by the IFETEL in the resolutions will prevail, and therefore it has recognized the cost, based on these rates.

(f) 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.

(g) There is a contingent liability derived from employee benefits, mentioned in Note 5(o).

(h) On July 14, 2014, the new Federal Telecommunications and Broadcasting Law (the "LFTyR") was published in Mexico's Official Gazzette (*Diario Oficial de la Federación*), which came into effect on August 13, 2014. In terms of the LFTyR, and since being in force, the previous Federal Telecommunications Law and the Federal Radio and Television Law ceased to be effective, and likewise, it was also thereby provided that all regulations and administrative provisions in such matter which were previously issued will remain full in force except when opposing the new LFTyR. In accordance with the new LFTyR, new legal obligations were established for the Company in the field of telecommunications, including the following obligations with respect to:

(a) New rights applicable to users in general, as well as for users with disabilities.

(b) Collaboration with the Justice.

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

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

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

(i) In compliance with commitments made in the acquisition of concession rights, the Company has granted surety bonds to the Federal Treasury and to the Department of Communications and Transportation amounting to Ps. 24,000 and to other service providers amounting to Ps. 565,249.

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

(k) According to current tax legislation, the authorities are entitled to examine the five fiscal years prior to the last income tax statement filed.

(l) According to the IT Law, companies carrying out transactions with related parties are subject to certain limitations and requirements, as to the determination of the agreed prices, as these costs should be comparable to those that would be used with independent parties in comparable transactions.

In the event that the tax authorities will review prices and reject the determined amounts, may require, in addition to the collection of the tax and accessories that apply, fines on unpaid taxes, which could be up to 100% on the updated amount of contributions.

(m) The Company leases some equipment and facilities under operating leases. Some of these leases have renewal clauses. Lease expense for year ended December 31, 2015 and 2014 amounted to Ps. 904,230 and Ps. 846,608, respectively.

The annual payments under these leases as of December 31, 2015 are as follows:

		Leases contracts in:	
		Mexican Pesos (thousands)	**U.S. dollars (thousands)**
2016	Ps.	41,135	23,651
2017		30,126	22,480
2018		19,309	20,521
2019		12,516	20,014
2020		8,584	17,219
2021 and thereafter		38,867	120,435
	Ps.	150,537	224,320

(22) Subsequent events

a) On December 15, 2015, the Company published a prospectus on the Mexican Stock Exchange, by which made official the intention to conduct a merger agreement between the Company as the merging, with Onexa, SA de C.V. (Onexa) as a merged company. Onexa is the holding company for the capital stock of Alestra, S. de R.L. de C.V. The merger project was approved in January 2016 by the respective Boards of Directors and Shareholders. In addition, the January 11, 2016 the Mexican Banking and Securities Comission (*Comisión Nacional Bancaria y de Valores*) ("CNBV") issued the necessary exception to proceed with the merger without making a public offering. The merger became effective on February 15, 2016, date when ALFA became the majority stockholder of Axtel.

As a result of the merger described above, Alfa owns approximately 51% of shares representing the outstanding capital of Axtel.

Onexa was a holding company whose only asset was its participation in the capital stock of Alestra, which accounted for 99.98% of the capital stock of it. Alestra, meanwhile, is a leader in the market for IT services and telecommunications provider in Mexico. Alestra focuses on the business segment including multinational companies, institutional clients as well as small and medium enterprises. Through its extensive fiber optic network and data centers, Alestra provides managed network services, IT, data, internet and local telephone services and international long distance. In recent years, Alestra has refocused its business strategy, placing more emphasis on the segment of managed network services and IT services such as data centers, cloud services, systems integration and network security

Derived from the above, the Company made the following:

i. On January 15, 2016, the Company signed a credit facility of US 500 million and Ps. 4,759 million pesos to refinance all senior notes maturing in 2017, 2018 and 2020. Redemption became effective on February 19, 2016. The new loan matures in full in January 2019 for the portion in pesos and quarterly principal payments from April 2018 until February 2021 for the dollar portion, and has an interest rate of TIIE + 2% in the first year, TIIE + 2.25% in the second and TIIE + 2.5% in the third, for the portion in pesos; and initial interest rate of Libor + 2.25% which increased to Libor + 3.25% for the portion in dollars.
ii. On January 2016, a restructuring provision for Ps. 234 million was recognized.
iii. On January 2016, an allowance for employee benefits for Ps. 137 million was recognized.

b) On January 2016, the Company paid in full the promissory note with Banco Nacional de Mexico, S.A. whereby, he received a loan of Ps. 130.000 and which generated interest at a rate of TIIE plus 3.5 basis points annually.

c) On February 2016, Axtel signed settlement agreement with Telefonica, concluding disputes relating to interconnection services, liquidating the different amounts in favor and against that were in dispute and / or unpaid for 2012, 2013, 2014 and 2015, so there is no longer any contingency for that period.